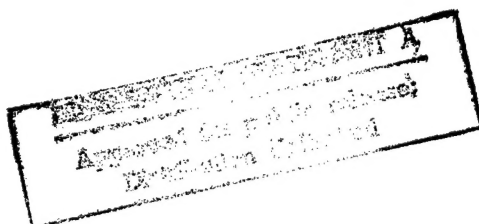


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# China Report

ECONOMIC AFFAIRS

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9 July 1985

## CHINA REPORT

### ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

ZHAO ZIYANG ON ECONOMIC CONSTRUCTION, OPEN-DOOR POLICY

HK140639 Beijing RENMIN RIBAO in Chinese 11 Jun 85, p 4

[XINHUA dispatch: "China's Economic Construction and Structural Reform Are Developing Healthily--Premier Zhao Ziyang's Speech at the Congress of Industry and Commerce of the FRG"]

[Text] Bonn, 10 Jun--Mr president,

Ladies and gentlemen:

Let me thank you Mr President for your speech brimming with friendship and warmth. I feel deeply honored to have the opportunity to meet you, dignitaries in economic circles of the FRG here.

This is my first visit to the FRG. The people of the FRG are a great people. The Chinese people greatly admire the outstanding contributions made by the people of the FRG in the development of human civilization and scientific and technological progress. The peoples of China and the FRG have a long history of friendly contacts. Since the establishment of diplomatic relations, China and the FRG have all along maintained good relations. The main purposes of my current visit to your country are to further promote Sino-German friendship, to strengthen our economic and technological cooperation, and to discuss with you ways and means to safeguard world peace.

Situated at opposite ends of the Euro-Asian continental land mass, China and the FRG, as well as other West European countries, share common aspirations for safeguarding world peace and stability and promoting cooperation and prosperity between various countries. China wishes to see a united, strong Europe and Europe also wishes to see a prosperous, strong China. We rejoice that Europe has constantly made achievements in its efforts for unity. I am also willing to tell our West European friends: China's economic construction and economic structural reform are moving forward healthily.

Since 1979, tremendous and profound changes have taken place in China's economy. Gradual as it is, this progress of change has yielded marked results. China's NGP has grown at an average annual rate of 8.2 percent for 6 consecutive years. During these 6 years, total investment by units under the

system of ownership by the whole people in fixed assets amounted to 50 billion yuan, of which one-third was used in the technical transformation of old plants. Building times in capital construction have been considerably shortened compared with the situation in the past, and during this period, the average annual growth rates of agriculture, light industry, and heavy industry were respectively 9.4, 11.7, and 6.6 percent, and 51 million people in cities were given jobs. Allowing for changes in commodity prices, the net per capita income of people living in rural areas has increased by more than 100 percent, and the per capita consuming power of people in cities has increased by 60 percent. With the increased purchasing power of the people, the level of retail sales of social commodities has doubled during these 6 years. The savings deposits of the urban and rural population have increased by more than 400 percent. The floor space of housing for urban and rural inhabitants has increased by more than 4 billion square meters. This is the last year of China's Sixth Five-Year Plan and it is certain that this plan will be greatly overfulfilled. Now we are in a position to make this judgment. Generally speaking, the 1 billion Chinese people have no more problems with food or clothing and the supply of their basic daily necessities is secured. From now on, main efforts will be devoted to further raising people's living standards and the quality of their lives; in particular, to gradually solving problem such as housing and the supply of durable consumer goods and selected consumer goods on the basis of developed production.

The development in China's economy is interwoven with the process of the reform of its economic structure. Reform has promoted a sustained, steady, and coordinated economic growth, which in turn has created more favorable conditions for reform. The restructuring of China's economy started first in the rural areas, and now the focus has switched to the urban areas. We started restructuring the economy by giving our enterprises ample vitality. Enterprises in China are encouraged to make progress in the course of competition and they are guided in developing themselves along the path helpful to the macroeconomy. China's socialist economy is a planned commodity economy operated on the basis of public ownership of the means of production. We deem it inadvisable to set planned economy against commodity economy. Similarly, we must not reject absorbing the advanced methods of operation and management, adopted by various countries in the present-day world, which reflect the laws governing modern production. We are taking active steps to develop the market for consumer goods and the means of production and will gradually open up technical, labor services, and financial markets. Following the gradual reduction of mandatory planning and the gradual increase of guidance planning, indirect control by government organs will also replace direct control in administration of enterprises. Prices, interest rates, tax rates, and exchange rates will become major levers for regulating the macroeconomy. These are the main points of China's current economic reform. Our objective is clear, our attitude is firm, and the measures we are taking are prudent. We shall look carefully before taking each step, go about things steadily and surely and strive for success. It is estimated that in 5 years or more, China's socialist economic structure will generally change from its old model to a new model, which will give a strong impetus to economic rejuvenation.

It needs the efforts of several generations of people to rejuvenate China's economy. We are prepared to take two steps in this regard. The first step is that we shall strive to ensure that our people will become well-off by the end of this century. In other words, our GNP will top US\$1,000 billion, averaging \$800 for each person. In the light of our experience over the last 6 years, this step is entirely likely to be accomplished so long as we continue to adhere to the principle of seeking truth from facts and commit no big mistake in terms of guiding ideology. The second step is that we shall continue to advance on the basis of what we have achieved in the first step and strive to spend 50 years approaching the standard of world advanced countries by the middle of the 21st century. What counts in this regard is strengthening intellectual development, meeting the challenge of the new global technological revolution, and reducing the gap between our country and developed countries in terms of science and technology. This means the greatest staying power and it needs early preparations. We are now making preparations for it.

While discussing China's construction and reform, please allow me to briefly explain our policy of opening to the outside world. This is a fundamental state policy and an important part of reform. Expanding economic and technological exchanges with foreign countries is the objective demand of the development of China's economy. National seclusion and the modernization program are mutually exclusive. We are actively expanding our foreign trade; pursuing preferential policies in matters of introducing foreign capital, technology, and equipment; and inviting foreign specialists in order to create a favorable environment for investment and to ensure reasonable profits for our foreign partners. We have formulated and will continue to formulate necessary laws and regulations. We have also gradually given more power to some localities and large-sized enterprises in carrying out technological cooperation with foreign countries. China opened four special economic zones in Guangdong and Fujian provinces in 1980, and open 14 coastal cities, including Shanghai, Tianjin, Dalian, Qingdao, and Guangzhou, as well as Hainan Island, last year. Not long ago, the nation again decided to open to the outside world the Chang Jiang Delta, the Zhu Jiang Delta, and the southern Fujian triangle area. Now the population of the areas opened to the outside world exceeds 100 million. China's import-export trade in 1984 approached \$50 billion. Although the amount was not great, the development was quick. The average annual growth rate during the past 6 years was 22.5 percent. There are now over 900 joint ventures using Chinese and foreign investment. China has established economic and technological cooperation relationships with 174 countries and regions. More doors in China are being opened to the outside world and these doors have been opened wider and wider.

Mr President, Ladies and Gentlemen,

China's economic construction and economic structural reform have won the wholehearted support of 1 billion people. We rejoice that they have won the extensive understanding and sympathy of our foreign friends. The Chinese people ardently love peace and China's construction needs peace. In modern world history, China was repeatedly subjected to aggression, but it has never

committed aggression against any country. The Chinese people, who have suffered enough from wars of aggression, would not like to see themselves devastated again. Neither would we like to see other countries suffer from the calamities of war. China is eager to live in peace and cooperate with other countries in the world in promoting common development, and is willing to make friends and to do business with everybody. On no account would it like to see its own construction program frustrated by a new war. As far as China is concerned, peace and construction cannot be separated. The longer the peaceful international environment lasts, the more helpful it will be to China. Similarly, the more China's economy develops, the more helpful it will be to world peace. The growth of China's economy means the growth of the forces for safeguarding peace and checking war.

Mr President, Ladies and Gentlemen,

China takes the five principles of peaceful coexistence, and not differences in social systems and ideologies, as the norm in handling its relations with other countries. Similarly, China's open-door policy is designed to open doors to all countries in the world, discriminating against no country. Western Europe, where economically developed countries are concentrated, has sound economic strength. China, the biggest developing country, has abundant natural resources and a vast market. There are no great obstacles hindering the development of relations between China and Western Europe. Both sides have strong aspirations to develop cooperation on the basis of mutual benefit. The economies of China and Western Europe have their own strong points. If their strong points are combined, the two sides can learn from each other to make up deficiencies and develop hand in hand. Over a fairly long period in the future, China's economic construction will continue to focus on the development of energy, communications, telecommunications, electronics, and raw and semifinished materials, and will gradually transform the technology of over 400,000 existing enterprises. There is a wide range of areas for economic and technological cooperation between China and West European countries. China is ready to carry out long-term cooperation with Western Europe in expanding two-way trade, introducing foreign technology and equipment, making use of foreign funds, seeking consultancy services, training technicians and managerial personnel, and so on. We cordially welcome people in economic circles and entrepreneurs from various West European countries to come to China to hold trade talks, and welcome both large-sized enterprises and medium and small sized enterprises to take part in the talks. We are ready to gradually enlarge the West European countries' share in China's foreign trade, and to see to it that cooperation between us will develop steadily. We hope that European countries will be more competitive in the prices of their products, more liberal in technology transfer, and will offer more favorable terms of payment. It must be pointed out that for quite some time, China has had a trade deficit with Western Europe, and the deficit has totaled \$4 billion over the past 6 years, of which last year's deficit reached \$1 billion. This cannot but affect our payment capability in importing more commodities from Western Europe. Therefore, we hope that West European countries will facilitate the import of Chinese commodities. I believe that so long as both sides make joint

efforts, constantly promote understanding, and accommodate each other, there will surely be bright prospects for cooperation between us.

The FRG is a country friendly to China and important trading partner. Since the two countries established diplomatic relations, trade volume has rapidly expanded to \$2.2 billion in 1984 from \$200 million or more in 1972. Fruitful economic and technological cooperation is being carried out between us. Having signed an investment protection agreement, the governments of our two countries have again concluded an agreement on avoidance of double taxation. We feel satisfied with the smooth development of relations between our two countries and particularly the steady growth of economic and technological cooperation. The positive attitude of the government of the FRG and Chancellor Helmut Kohl and the enthusiastic support of people in all walks of life are indispensable to the present encouraging situation in our relations. Of course, neither side will rest content with our achievements. To bring benefits to the peoples of China and the FRG and to promote common prosperity and world peace, we are ready, together with you, to continue efforts to bring the friendly relations and cooperation, between our two countries to a new high.

Thank you.

CSO: 4006/691

NATIONAL POLICY AND ISSUES

TIAN JIYUN VISITS FRG MACHINE BUILDING PLANT

OW121357 Beijing XINHUA Domestic Service in Chinese 1541 GMT 11 Jun 85

[Text] Bonn, 11 Jun (XINHUA)--Tian Jiyun, vice premier of the Chinese State Council, arrived in Hilchenback, central FRG, by helicopter this morning, where he visited a machinebuilding plant of Schloemann-Siemag Company.

On arrival at the plant, Vice Premier Tian Jiyun was warmly welcomed by (Heinrich Weiss), chairman of the company's board of directors. Also on hand to welcome the vice premier were the more than 30 Chinese engineering and technological personnel who are studying at the plant. Vice Premier Tian shook hands with each of them and said to them: "You have really studied hard here!"

Board Chairman (Weiss) introduced Seimag Company's condition to the Chinese guest, including its cooperation with China.

Siemag is engaged mainly in the manufacture of machines for milling, (?continuous casting) [lian zhu 6647 6999], forging, and plastics processing. The company has more than 7,000 workers and staff. In the past 20 years, Siemag has carried out seven major cooperation projects with China, including the Wuhan Iron and Steel Plant's cold-rolling equipment and the Shanghai Baoshan Iron and Steel Plant's Cold- and Hot-rolling equipment. At the same time, the company has also trained more than 500 technical personnel for China.

Accompanied by (Weiss), Vice Premier Tian toured a workshop where the Baoshan Iron and Steel Plant's cold-rolling equipment was being produced. He inquired in detail about the workshop's production organization. Vice Premier Tian said that Siemag's products are of fine quality and are respected in China. He hoped that the company will maintain its reputation. Vice Premier Tian then visited the plant's training center.

Accompanying Vice Premier Tian on his visit today were Gan Ziyu, vice minister in charge of the State Planning Commission; and Lin Zongtang, vice minister in charge of the State Economic Commission.

CSO: 4006//703

NATIONAL POLICY AND ISSUES

RENMIN RIBAO ARTICLE ON DEVELOPING PRODUCTIVE FORCES

HK280712 Beijing RENMIN RIBAO in Chinese 24 May 85 p 5

[Article by Li Honglin [2621 3163 2651]: "The Key Lies in Developing the Productive Forces"---passages within slantlines underscored in original]

[Text] Not long ago I read in a short article: "In the past we repudiated landlords, /not merely because/ they had 'much money and grain,' /but because/ they /exploited/ and oppressed peasants and their money was /dirty/ and stained with blood." (words underscored by this author)

This was written in view of the worries of some peasants who have become rich first. Because some people say that these peasants earn much more than previous landlords, there is the possibility that someday they may be pulled out and repudiated as "new landlords." So the writer of the short article used the above reasons to remove their worries.

It is very necessary to criticize the "jealousy disease" and remove people's worries. But the reasons cited were not convincing, because they told people that although "much money and grain" were not the main reason why landlords were repudiated, they were at least one of the reasons. It is thus evident that becoming rich is very dangerous. In the meantime, they also tell people that landlords were repudiated because they exploited and oppressed the peasants and their money was dirty and stained with blood. It also appears that people exploiting others will most likely be repudiated because their money obtained through exploitation is dirty.

This view cannot explain the fact that "when we repudiated landlords in the past," we protected national industry and commerce. National capitalists were much richer than landlords and their money also came from exploitation. As surplus value, currency is by no means cleaner than feudal land rent. Why should landlords be repudiated and the national capitalists be protected?

This view cannot explain the present situation either. At present we not only allow some people to get rich first, but also bring in funds and protect the lawful profits of those who do business as sole proprietors or joint-venture operators. What are the funds which have been brought in and their profits? They are capital and surplus value. According to the same reasoning, those who do business as sole proprietors or joint-venture operators also run the risk of being repudiated. Then, who will have the courage to invest in China?

Marxism explains social and economic phenomena by using the science and historical materialism but not moral indignation. There is only one criterion to evaluate whether an economic system is progressive or reactionary, that is, whether it promotes or hinders the development of the productive forces. We must refrain from examining whether the economic system is clean or dirty by departing from historical conditions.

If people pay no attention to the development of the productive forces but curse all systems of exploitation, then all societies following primitive society would mean a dark world, without the slightest progress. According to this view, communism can be built easily on any kind of material basis without experiencing the necessary stage in the development of the productive forces.

But history has its own laws. Primitive society without exploitation was replaced by the slave system of exploitation of man by man. At that time primitive communes became the obstacle to the development of the productive forces and the slave system could meet the requirement of the development of the productive forces. According to the same law, if the level of the productive forces has not reached the stage of "each according to his needs," then the communist society cannot be built. Under this historical condition, genuine communists should develop the productive forces with one heart and one mind, should not carry out a "poor transition" by overstepping necessary stages, or should not shout beautiful but hollow slogans.

There were bitter lessons in history. We attempted to jump into communism from the start of poverty by using the method of the "great leap forward," but communism was not built in advance and socialist construction was delayed. Later, the "gang of four" went further to criticize socialism by holding aloft the banner of their "communism" which was more ridiculous and absurd.

Since the 3d Plenary Session of the 11th CPC Central Committee, our party has summed up historical experiences and led the big ship of China onto a correct course, that is, the course of building socialism with Chinese characteristics. Along this course we cannot only build the four modernizations and march toward the target of common wealth, but will also thoroughly uproot the soil of exploitation of man by man, and finally achieve the great ideal of communism.

To achieve this target, the essential task is to develop the productive forces. At the present stage in China, not only the state, collectives, and individuals should develop simultaneously, but foreign funds should also be brought in to run enterprises of sole proprietors and joint-venture operators. Provided they are beneficial to the prosperity of the state, to the wealth and happiness of the people, and to the development of the productive forces, they should be allowed to exist according to law. It is necessary to promote their development and protect the legitimate rights and interests of investors, operators, and laborers. It is not a bad thing that some people get rich first in this course (not including those who "get rich" by engaging in malpractices), for this is the only way to common prosperity. If people are jealous of those who get rich first and attempt to repudiate them as "new landlords," then we will go back to the old road of notorious "socialism" under which everyone is poor.

NATIONAL POLICY AND ISSUES

HOME SALES TO EASE SHORTAGES EXPANDED

HK090939 Beijing CHINA DAILY in English 9 Jun 85 p 1

[Article by staff reporter Liang Weiya]

[Text] The state is expanding its experiment in real estate sales and taking a series of other concrete measures to ease housing shortages and improve living conditions throughout China.

Other measures include conducting a general survey of the country's housing needs and further implementing the party's policy of returning confiscated houses to previous owners.

"Making housing a kind of commodity is imperative," an official of the housing bureau of the Ministry of Urban and Rural Construction and Environmental Protection told CHINA DAILY.

Since the mid-1960s, most housing has been owned by the state. The housing sales represent a reform in traditional views of private home ownership and also generate funds that the state can use to build even more housing, the official said.

He said the experiment in housing sales--begun in 1982--will be further expanded. Cities will be required to put up certain amount of housing for sale. In Beijing for instance, from now on 20 percent of all new housing construction will go on the market.

Typically, purchasers are required to pay one-third of the unit price, with state and work unit subsidies providing the remainder. Prices average 500 yuan per square meter in the capital.

The official said every effort should be made to eliminate bureaucratic red tape.

Experimental apartment sales began three years ago in four Chinese cities--Changzhou, in Jiangsu Province, Shashi in Hubei Province and Siping in Jilin Province. The experiment gradually expanded.

Last year, apartments with a total floorspace of 1.9 million square meters were sold to private buyers in 111 cities and 200 counties in 28 provinces, municipalities and autonomous regions, the official said. That's a 91 per cent increase over 1983.

China earned more than 251 million yuan in cash from housing sales in 1984. The sum represented a five-fold increase over the previous year.

More than half of the country's cities are taking steps to participate in the housing sales.

WORKERS' DAILY reported that Shanghai, China's largest city with a population of nearly 12 million, sold about 1,000 new apartments last year to its residents.

Under that programme, sponsored by the Shanghai Industrial and Commercial Bank, house buyers were required to make regular deposits in their saving account for a specified time before buying the house. The depositors then were entitled to a bank loan to make up the sum needed to purchase the house. The bank, meanwhile, borrowed the savings to finance more housing projects.

The housing shortage is especially severe in Shanghai. The city housing bureau said that about 70,000 young engaged couples are waiting for apartments. Many are eager to buy houses.

CSO: 4020/247

9 July 1985

## NATIONAL POLICY AND ISSUES

## OFFICIAL COMMENTS ON RESTRUCTURING 'THIRD LINE'

HK080702 Beijing CHINA DAILY in English 8 Jun 85 p 4

["From 'ECONOMIC INFORMATION'"]

[Text] The inland enterprises in southwestern China are facing an overall restructuring, a leading official in charge of readjusting the so-called "third line" programme, announced at a recent Beijing meeting for regional economic coordination.

The move, said Lu Dadong, head of the subcommittee responsible for such affairs under the State Council, aims to gear a host of economically isolated plants into the current economic reform and integrate them with the thriving economies of China's coastal provinces.

During the 1960s and 1970s China undertook many industrial projects vital to the national economy and defence in her vast hinterland. Popularly known as "third line" works, they have markedly narrowed the imbalance in distribution of China's modern industry, which used to be clustered in coastal urban districts termed "first line" works.

Under today's conditions, the self-contained "third line" enterprises need a new approach, Lu said. They should share part of their production capacity and advanced techniques with the civilian market. Their routine function as exclusive producers of warfare equipment or sophisticated devices for national defence departments should be partially converted to market-oriented manufacture supplying civilian goods and making profits for the state. Some have started turning out products for civil use, such as aircraft, vehicles, hydraulic equipment, drilling shafts, spinning looms and other goods developed from economically vital of military projects.

Distribution of the "third line" enterprises should be reshaped. At least 7 percent are badly located. Their either nestle deep in rugged mountains or perch at places unsuitable for a "normal" performance. Prudence is needed in deciding whether these misplaced plants should be closed, merged into other plants, put to new uses or taken to a new site. When relocation is inevitable, it should be managed to cause least economic losses.

Technical upgrading is essential to survival and development of the "third line" enterprises, said Lu. Some of key plants have already become pace-setters in this respect. They help produce large-scale sets of hydro and thermal power equipment, mini-computers, light trucks and motorcycles.

Developing competitive products is the task assigned by the state to these enterprises, Lu said. Integration between the "third line" enterprises and coastal industries will offer a convincing argument for interregional co-operation. This move will rationalize the overall distribution of Chinese industry, giving way to common prosperity for both the coastal and inland areas.

Joint exploration for mineral resources is one of most promising areas, while combined production of top quality equipment and tools is also good possibility. Coastal enterprises could offer technical services in helping improve quality and boost output of these products.

Another essential field of cooperation is development of up-to-date technical installations and new equipment badly needed by the state, such as heavy machinebuilding equipment, integrated circuit chips, mini-computers and optical fibre communication material and devices.

Inland primary commodities could be processed and packaged by coastal plants before export.

The "third line" enterprises and coastal provinces should enhance their co-operation in scientific research and new product development, and increase exchanges of know-how and qualified personnel.

Surplus manpower in the hinterland could be recruited to take part in construction projects in coastal provinces. Other cooperative undertakings could involve industrial departments in coastal areas processing raw materials collected by inland farmers, herdsmen, herb-growers and other side line producers.

Transport is another great challenge at hand waiting for investors. There is major potential in the Yangtze, the largest artery of water transport in China. By using the Yangtze, one not only expects to get considerable income directly from traffic charges, but also to greatly foster economic ties between the middle and the lower reaches of the river thus giving rise to more affluence in inland China. Alos, there is much room in developing new civil aviation routes, highway communication and inland navigation to ease the tension caused by poor transport facilities, a traditional curse to the people in the hinterland.

The principle for such cooperation is to develop what is worthwhile to both hinterland and coastal areas. If both sides strive to take initiatives in creating a hospitable atmosphere for cooperation, Lu concluded, the affairs are bound to be a success.

CSO: 4020/246

NATIONAL POLICE AND ISSUES

BRIEFS

ECONOMIC LAW GRADUATES--Beijing, 13 Jun (XINHUA)--A graduation ceremony for our country's first special class of economic law cadres was held in Beijing today. The 2-year special courses were offered by China People's University and Beijing University on behalf of the Economic Laws and Regulations Research Center Under the State Council. At the ceremony, Gu Ming, responsible person of the Economic Laws and Regulations Research Center Under the State Council, read out a congratulatory letter from Chen Pixian, vice chairman of the NPC Standing Committee, and secretary of the Political and Legal Commission of the CPC Central Committee. In the letter, Chen Pixian hoped that, after returning to their units, the graduates would persist in studying the law, observe and strictly enforce it, deal with lawbreakers at work, and, at the same time, vigorously publicize the law and disseminate legal knowledge. This is the first special class for economic law cadres since the founding of the PRC, receiving the attention, and support, of leading comrades of the State Council and other departments concerned. Most of the 98 graduates from the first class came from various ministries and commissions of the State Council and judicial organs. These graduates, who are in their prime, and have good political qualities and certain practical experience, have greatly raised their theoretical level after 2 years' study. After graduation, they will generally return to their original units to do the work of economic legislation or to administer the economic laws. [Text] [Beijing XINHUA Domestic Service in Chinese 1222 GMT 13 Jun 85 OW]

SHANGHAI MATERIALS SHORTAGE SOLVED--Shanghai, 10 Jun (XINHUA)--To counter the new problem of acute shortage of raw and other materials facing Shanghai's industrial production, leading comrades of the State Economic Commission held an on-the-spot allocation and transfer meeting in Shanghai on 9 June, made final decisions on the spot, and solved some shortages in the supply of five major materials, namely, rolled steel, raw and other materials for the chemical industry, cotton yarn, fuel oil, and timber, now facing Shanghai's production. Good results were achieved. The situation in Shanghai's industrial production in January-May this year was quite good. However, because of an acute shortage of some raw and other materials and fuel, the production of some famous-brand and high-quality products and products in great demand on the market was affected. This matter was brought to the attention of leading comrades of the State Council. Following instructions of leading comrades of the State Council, Zhao Weichen, vice minister of the State Economic Commission, led a team to Shanghai on 7 June to earnestly study a

solution to the new questions arising in reform at present. At present, shortages of raw and other materials solved in Shanghai include those of rolled steel, nonferrous metals, basswood, raw and other materials for the petrochemical industry, cotton yarn, and fuel oil. [Excerpts] [Beijing XINHUA Domestic Service in Chinese 1633 GMT 10 Jun 85 OW]

COMMUNICATIONS MINISTRY STUDIES PORT DEVELOPMENT--A discussion meeting of the development of ports in coastal cities opening to the outside world was convened by the Ministry of Communications from 6 to 9 June in Xiamen. Responsible persons of 14 coastal open cities, Hainan Dao, the four special economic zones, and departments concerned of the central authorities and coastal provinces and municipalities, totalling more than 70 people, attended the discussion meeting. Vice Governor You Dexin attended the meeting, on invitation, and delivered a speech. At the meeting, Minister Qian Yongchang talked about the Ministry of Communications' plan for the development of ports in coastal cities during the Seventh Five-Year Plan, earnestly heard demands from coastal cities for the expansion of communications and transportation facilities as a result of further opening to the outside world, and called for full preparations to formulate a plan for developing communications and transportation work in the Seventh Five-Year Plan. [Excerpts] [Fuzhou Fujian Provincial Service in Mandarin 1130 GMT 9 Jun 85 OW]

COASTAL-INLAND ECONOMIC TIES--Chengdu, 7 Jun (XINHUA)--Letters of intent were signed on 650 projects of economic cooperation between coastal and inland areas at a fair ending here today. Officials of the fair said that coastal areas have advantages in technology, equipment and funds while central and western parts of the country abound in mineral and water resources. At the seven-day fair, representatives from seven coastal areas including Shanghai, Tianjin and Guangdong and eight inland provinces including Sichuan and Gansu as well as Chongqing City have designated the following fields for cooperation: --Expanding production of ferrous and nonferrous metals, coal and raw materials;--developing quality products, heavy machines, large-capacity hydraulic and thermal power equipment, heavy-duty motor vehicles, civil airplanes and vessels;--developing light industry, food, farm produce, processing and tourism. Representatives from a dozen ministries also attended the fair. [Text] [Beijing XINHUA in English 1317 GMT 7 Jun 85 OW]

CSO: 4020/246

PROVINCIAL AFFAIRS

HUNAN INVESTIGATES HEAVY LEVIES ON ENTERPRISES

HK220600 Changsha Hunan Provincial Service in Mandarin 1100 GMT 20 May 85

[Excerpts] In April, the provincial bureau for town and township enterprises organized four teams for investigating thoroughly the economic burden on town and township enterprises.

According to the statistics, the town-run enterprises delivered profits to the county governments last year amounting to 56.5 percent of the year's total revenue. This greatly exceeded the regulations of the Provincial CPC Committee and government, which state that the amount of profit delivery should be below 30 percent of the total revenue. [passage omitted]

Presently, the economic burden on town and township enterprises is extremely heavy. This is mainly because town and township governments levy a wide range of charges on them. Generally speaking, the enterprises have to pay some 30 kinds of charges. Some town governments even rely on the enterprises' profits for such expenses as capital construction, holding meetings, overhead cost of offices, as well as wages, bonuses and meal allowances of collective cadres. [passage omitted]

According to the investigation of the provincial bureau for town and township enterprises, departments of Chenzhou, Huaihua and Hengyang prefectures and city also levied numerous unreasonable charges on town and township enterprises. For instance, small coal mines run by towns and townships must pay charges for raising saplings and supervising forests to the forestry departments, in addition to paying administrative charges to the administrative departments for coal and to the town and township governments. Even when they build their own roads, they must pay charges for road maintenance. The situation of levying charges at random and forcing prices down was even worse among the coal departments. Even though the town and township enterprises face many problems in production, supply of materials, and marketing, some cadres abuse their power and ask the enterprises for money. [passage omitted]

CSO: 4006/652

PROVINCIAL AFFAIRS

BRIEFS

HUNAN FIRE PREVENTION--According to the provincial conference on fire-prevention work, fire accidents have destroyed some 6.21 million yuan worth of properties in the province since the beginning of this year. [Summary] [Changsha Hunan Provincial Service in Mandarin 2300 GMT 19 May 85 HK]

CSO: 4006/652

## ECONOMIC DEVELOPMENT ZONES

### GU MU DISCUSSES OPENING OF 14 COASTAL CITIES

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 85 pp 3-4

[Article by Gu Mu [6253 3668]: "Open Door Policies of Coastal Cities"]

[Text] I. 14 Coastal Cities To Follow Special Policies

To enhance the dynamism of the 14 coastal cities in foreign economic activities and technical exchanges and make them more attractive to foreign investors, the state has decided to apply the following important policies and measures with regard to the cities:

First, expand their powers to examine and approve projects funded by foreign capital. A distinction is made between production and nonproduction projects. Tianjin and Shanghai are authorized to examine and approve all production projects capitalized up to \$30 million, which involve either the technical modernization of an existing plant or the construction of a new plant, provided that the state is not required to step in and effect an overall balance in their construction or production conditions or be the sole agent for their products and that their exports are not restricted by quotas. The ceiling for Dalian and Guangzhou is \$10 million, while that for all other coastal cities is \$5 million. As for nonproduction projects, the cities are to have total examination and approval powers, irrespective of the amount of investments involved, so long as they are mainly funded by foreign capital or by funds raised by an enterprise itself, import foreign equipment, and do not require the state to improve their production conditions.

It will also be within the jurisdiction of the cities to examine and approve requests for permission to travel overseas for study purposes or to conduct business negotiations with foreign investors in connection with a project or the importation of related equipment.

Second, actively support these cities in modernizing old enterprises with foreign capital and imported technology. For instance, exemption from tariffs, import duties and value-added taxes before 1990 may be granted to all key imported equipment, instruments, meters and other materials which are essential to modernization but which may not go into production right away.

Third, offer preferential treatment to foreign businessmen who invest and set up enterprises in these cities. There is a 15 percent reduction in

income tax for enterprises which are knowledge- or technology-intensive, energy- or communications-related, and which involve an outlay of at least \$30 million. A reduction of 20 percent in income tax applies to those enterprises which do not qualify for the 15 percent reduction above but which are located in the older sections of the cities and are in any of the following fields: machine, electronics, metallurgy, chemicals, building materials, light industry, packing, textiles, medical apparatus, pharmaceuticals, construction, agriculture, forestry, animal husbandry and aquatic culture, and processing related to these industries. Also exempt from tariffs, import duties and value-added taxes are production and operational equipment and construction materials; merchandise imported for the manufacture of exports, including raw materials, parts, components and packing materials; means of transportation and other office supplies imported for the private use of the enterprise. Foreigners who invest in the economic and technical development zones of these cities and supply advanced technology by establishing production enterprises or scientific research organizations are entitled to all the preferences granted to investors in the older parts of the cities. Moreover, they will enjoy a 15 percent reduction in income tax. When a foreign investor desires to transfer his legitimate profits out of the country, his remittance will be exempt from the remittance tax which is 10 percent of the amount he remits. In addition, entry and departure formalities have been simplified to make things more convenient for foreign investors as they come to inspect these cities or for business talks.

## II. Economic Differences Between Economic and Technical Development Zones in Coastal Cities and Special Economic Zones (SEZ's)

First, the two kinds of zones have different functions and purposes. SEZ's are integrated economic development zones, suitable for any projects which are meaningful in terms of international economic cooperation and technical exchange, be they in industry, agriculture, animal husbandry, aquatic culture, tourism, housing, construction, high-tech research or manufacturing. If a foreign investor and his Chinese partner are interested in setting up an enterprise in a field other than those mentioned above, they are free to go ahead. Economic and technical development zones lean toward production enterprises and scientific research institutions. Their main purpose is the development of new technology, new products and new trades.

Second, they also differ in tax preferences. All joint ventures, cooperative enterprises and wholly-owned foreign enterprises in SEZ's are subject to a 15 percent income tax, regardless of whether or not they are engaged in production. In economic and technical development zones, however, only production enterprises enjoy this advantage. In SEZ's, imported means of production and daily consumer goods (with a few exceptions such as cigarettes and liquor) are exempt from tariffs. In economic and technical development zones, only imported means of production are exempt from tariffs.

## III. Duration of Joint Ventures Specified in Contracts

According to the "Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign

Capital," "The duration of a joint venture shall be decided upon through consultation of all parties to the joint venture according to the actual conditions of the particular lines of business and projects. The duration of a joint venture is usually from 10 to 30 years. Duration for those projects requiring large amounts of investment, long construction periods and low interest rates on funds can be extended to more than 30 years." When all parties to a joint venture agree to extend the duration, the joint venture shall file an application for extension signed by authorized representatives with the examination and approval authority 6 months before the date of expiration of the duration. In other words, a joint venture can be extended upon the expiration of the original contract. The length of the extension is to be determined by the parties themselves with the approval of the authority concerned.

#### IV. Products of Enterprises Funded by Foreign Capital May Be Sold Domestically

In principle, enterprises funded by foreign capital produce for the international market. To facilitate our acquisition of foreign advanced technology, however, we are willing to accommodate some of their products in the Chinese market, provided that they meet one of the conditions below: 1) The enterprise genuinely supplies advanced technology and equipment and produces goods which China needs and are in short supply in this nation; 2) the products are on the shopping list of our long and medium term plans; and 3) they produce commodities which are of the highest international standard in terms of quality, design and performance, even though they may duplicate what we produce internally. Detailed provisions are being worked out by the departments concerned.

#### V. Will the Establishment of SEZ's and Coastal Cities Cause Problems?

The establishment of SEZ's and coastal cities will not be dangerous so long as we have a correct understanding of their establishment and follow the right policies and principles. Let us first consider spiritual pollution. Even as we decided to adopt the open door policy, we made it clear that what we want from foreign nations are their advanced science, technology and managerial experience and that what we do not want and must firmly resist are all that which is corrupt in capitalist societies. Foreigners who invest in China, operate enterprises here and engage in other economic activities must abide by Chinese laws and respect Chinese social morality. We demand that we come to grips with the construction of socialist spiritual civilization at the same time that we absorb foreign capital and technology to achieve the socialist material civilization. We know from experience that this is entirely within our power. Take, for example, the rapidly developing SEZ, Shenzhen. There the social climate is healthy and people are highly motivated. According to a survey of 43 units, 70 percent of the workers and employees take part in various self-study organizations. With a crime rate which is lower than that of most cities, it does not have law and order problems.

People worry that by using foreign capital we will end up wallowing in debt. This issue must be taken seriously. In making use of foreign capital,

we must carefully examine every project to see that it is justified and accurately estimate our future ability to repay our loans. Internationally, the general rule of thumb is that a nation's annual loan payments, including principal and interest, should not exceed 20-25 percent of its export earnings in foreign exchange. Right now, our loan payments do not amount to even 10 percent. The projects we have initiated with foreign capital are all doing very well. The problem now is not whether we have used excessive foreign capital. Rather, we must think of new ways to improve our achievements.

The establishment of SEZ's and the further opening of coastal cities accelerate China's socialist modernization. Foreign capital, joint ventures, cooperative enterprises and wholly-owned enterprises are necessary and beneficial additions to our socialist economy. China's socialist economy is huge enough to absorb tens, even hundreds of billions of dollars without having its nature altered in the process.

12581

CSO: 4006/522

9 July 1985

## AGGREGATE ECONOMIC DATA

## HAINAN MEETING REVIEWS ECONOMIC ACHIEVEMENTS, TASKS

HK190549 Haikou Hainan Island Service in Mandarin 0400 GMT 19 May 85

[Text] A Hainan regional economic work conference was held in Qionghai County from 13 to 16 May. Meng Qingping, deputy secretary of the regional CPC Committee and a responsible person of the regional government, attended and gave a report.

Hainan recorded sustained growth in industry and communications in the first 4 months of the year. Industrial output value amounted to 41.4 percent of the year's plan and showed a rise of 41.7 percent over the same period last year. Sales increased by 19.2 percent. Profit rose by 60 percent. The meeting held: This is the result of implementing the central decision on speeding up the development and construction of Hainan and bringing into play the role of the region's industrial capital construction over many years and of investment in technological transformation.

However, as the region's industrial foundation is poor and technology backward, there are few brand products, and market competitiveness is weak; there are still many problems in industrial and communications production. We must redouble our efforts in order to promote industry and better stimulate Hainan's development and construction.

Through summing up experiences, the meeting further corrected the guiding ideology for professional work. It stressed: We must seriously implement the central guidelines on speeding up the development and construction of Hainan, correctly handle the relationships between developing, opening up, reforming, and invigorating, stimulate development through opening up, and launch extensive activities to link up with the interior and import from abroad. We must do a good job in communications and energy construction, create an excellent environment for development investment, develop industry focused on processing the treasure island's resources, strengthen market competitiveness, and create and accumulate more capital for development and construction. At present we should grasp the following tasks:

1. Make all-round arrangements in managing and using capital well. Capital must be used where it is most needed.
2. Take serious stock of and rationally readjust the existing projects for linking up with the interior and importing from abroad, to avoid duplicate importation and plant construction.

3. Get a good grasp of implementing technological transformation projects and strive to produce results from them at an early date. It is necessary to establish a technological transformation project responsibility system, to include investment, the construction cycle, quality and safety, and economic results. We must strictly practice the reward and penalty system. We must attach importance to technological infrastructural work and achieve standardization in the renovation of equipment. Products turned out after technical transformation should reach or approach national standards or advanced foreign standards.

4. Do a good job in organizing the production of products that sell well.

The meeting also made arrangements for speeding up the pace of reform, promoting communications and transport, improving packaging, developing new products, completing enterprise consolidation, eliminating operational losses, and carrying out an industrial census.

CSO: 4006/652

AGGREGATE ECONOMIC DATA

BRIEFS

GUANGXI FIRST QUARTER OUTPUT--According to statistics from departments concerned, from January to April this year the region's cumulative industrial output value totaled over 3.96 billion yuan, an increase of 22.16 percent compared with the same period last year. Of that figure, the gross industrial output value for April was 974.1 million yuan, an increase of 24.74 percent compared with the same period last year. But there were also weak points. The growth of energy production fell short of target, and the production of chemical fertilizers, chemicals, farm chemicals, timber, and processed sugar decreased. [Summary] [Nanning Guangxi Regional Service in Mandarin 1130 GMT 10 May 85 HK]

CSO: 4006/652

FINANCE AND BANKING

LEI MING REPORT ON 1984 FINAL ACCOUNTS

HK210926 Yingchuan NINGXIA RIBAO in Chinese 3 May 85 p 1

[Article: "Excerpts of Lei Ming's Report on the Final Regional Expenditures for 1984 and the Draft Regional Budget for 1985 at the Third Session of the Fifth Ningxia Regional People's Congress"]

[Text] Entrusted by the autonomous regional people's government, Lei Ming, director of the regional Office of Finance, made a report to the Third Session of the Fifth Ningxia Regional People's Congress on the "final regional expenditures for 1984 and the draft regional budget for 1985," in which he announced: Pushed forward by party rectification and the reform of the economic structure and through the concerted efforts of the people of all nationalities in the region, Ningxia achieved balance between financial revenues and expenditures in 1984 with some surplus. The region collected 222.53 million yuan in local financial revenues in the 1984 fiscal year, accounting for 122.3 percent of the annual budget, with a 32.1 percent increase over 1983. Financial expenditures accounted for 114.8 percent of the financial expenditures in the annual budget approved by the Second Session of the Fifth Autonomous Regional People's Congress and 89.2 percent of the readjusted annual budget. Covering the expenditures and deducting the sum to be spent in the following fiscal year, the net surplus in revenues was 60.42 million yuan.

He said: The implementation of the 1984 financial budget of the region was not bad on the world. This was the result of attaching importance to financial work on the part of the regional CPC committee and government, which have constantly listened to reports and solved major issues in financial work. However, the scope of expenditures in 1984 was on the high side because financial revenues increased rather quickly, and there was some blind optimism. Some of the funds were not well employed, and economic results were poor because of relaxation in supervision and management. Expenditures in administrative funds grew rapidly. With reference to some problems of violating financial and economic discipline, they were not examined and dealt with forcefully enough. With regard to new unhealthy tendencies in particular, we have been slow in discerning them and in taking action against them, while the measures were not forceful enough. All these problems remain to be solved in earnest.

He pointed out in his report that the guiding ideas for the region's 1985 financial budget were: To continue implementing the principle of readjusting,

restructuring, consolidating, and improving, and concentrating financial and material power on ensuring the construction of key projects; to promote production development in a big way with improving economic results as the center; to widen channels for financial resources in order to increase revenues and strive to overfulfill the tasks; to adhere to the principle of acting according to one's ability while doing one's best to ensure the people's livelihood, the reforms, and key projects and coordinating work in all fields; and to strictly control financial expenditures through strengthening comprehensive balance and financial management under the premise of basically meeting the needs of the normal development of all undertakings in order to ensure a balance between financial revenues and expenditures. So long as leadership at all levels attach importance to it and work hard to increase revenues, the fulfillment and overfulfillment of the annual tasks for financial revenues are entirely possible.

He pointed out in his report that a good management of finance is not only the duty of financial departments, but the common task for all localities and departments. He said: It is necessary to rectify the guiding ideas in financial management, to learn in earnest the new way of financial management including making money, collecting and spending it. We should continue to practice, to sum up experiences, and to find a new way of financial management suitable to the characteristics of nationality areas, to foster correct views on production, to take an active part in drawing up economic strategies, in order to make financial work better, pave the way for, and serve the invigoration of the economy. We should continue to grasp well reform in financial work. It is necessary to grasp firmly the key link of invigorating enterprises, streamlining administration and decentralization, and to persist in the principle of linking relaxation with strictness, and to strictly implement the new financial system of "classifying taxes, checking and ratifying revenues and expenditures, dividing up the work and assigning a part to each level, which should remain definitely unchanged for 5 years." It is also necessary to bring into play the enthusiasm of many localities and departments to take up financial responsibilities to continue to do a good job in the second step of reform regarding substituting tax for profits handed over to the state and to correctly bring into play the function of the tax lever. He stressed that it is necessary to thoroughly reform all regulations concerning finance and financial affairs which are unfavorable to enlivening the economy and keep the development of productive forces in bondage. While drawing up measures and standards for expenditures, it is imperative to find a solution for the unification of rationality and legality. We should take improving economic results as the key, and take an active part in helping the enterprises to strengthen economic accounting, to improve their management and operation, and to realize increasing production and income. All localities and departments should place the focus of financial management on the effects of financial funds in their uses. We should take a good grasp of revenues as well as expenditures, which are more important. Waste is a crime. It is necessary to adopt powerful measures to ensure the effective use of financial funds by drawing up a few regulations and through economic legislation. We should strengthen supervision and control, be solemn in financial and economic discipline, and be determined to apply economic, administrative and legal means to put a stop to unhealthy tendencies which violate financial and economic discipline. It is his hope

that governments at all levels will further strengthen leadership in financial work, and will play an exemplary role in observing financial and economic discipline, and strictly guard against reducing revenues and increasing expenditures.

CSO: 4006/654

FINANCE AND BANKING

CHINA DAILY ARTICLE NOTES EFFECTS OF PROVINCIAL PRICE CONTROLS

HK110436 Beijing CHINA DAILY in English 11 Jun 85 p 3

[text] Party organizations at all levels must intensify price supervision and taken measures against arbitrary price rises, urges a circular issued by the Communist Party Discipline Inspection Commission on Saturday.

The circular stresses that severe punishment must be meted out to units and individuals who raise prices arbitrarily or in disguised forms by exploiting the economic reforms to gain personal advantage.

Meanwhile, those who implement government price policies and are bold in checking and exposing unwarranted price rises should be commended.

However, some organizations and individuals ignore the policies and raise prices recklessly. This not only damages the interests of the state and consumer, but also disrupts social stability and the efforts to reform prices, the circular states.

Beijing is cited as a good example of the way the authorities are keeping prices under control. Following a general check between last October and March, the city's price management departments uncovered nearly 1,000 cases of price violation. The city recouped about 3.3 million yuan of the illegal earnings and fines.

The Beijing No 6 Cake Factory was fined for doing shoddy work and using inferior raw materials in January. The Beijing Five-Star and Beijing breweries overcharged customers for 300,000 bottles of beer, but all their unwarranted earnings were confiscated.

On the other hand, many businesses have been commended for observing price discipline. For instance, the Huashi Department Store ordered 990 metres of material, but returned the merchandise on discovering that the price was 25 percent higher than the government-listed one.

In Guangdong Province prices had been stable for two years. But since the last quarter of 1984, when the state control on non-staple food was lifted in May, prices began to rise.

Compared with the same period of last year, the retail price index has gone up by 10 percent and continues to rise.

At the third session of the Sixth People's Congress of the province, which was convened last month, delegates caedon [as published] the government to halt the price rise.

The price administration department is taking steps, including strengthening control over the prices of daily items, regulating the prices of main non-staple items in state-run shops and punishing illegal activities.

Heilongjiang Province reported stable pork prices since the state control of non-staple food was removed.

In the 18 major free markets of agricultural products, the price of fresh pork averaged 3.4 yuan per kilogram. Pork prices in the six big cities, including Harbin, floated around 317 yuan per kilogram.

Since May, pork sales have increased and quality improved. There were 18 pork sale stalls in Touloung Street Free Market, Harbin, before May, and now there are 31. Daily sales have increased from 250 to 1,150 kilograms. Residents said that the pork's quality now justified the price.

Vegetable prices vary around the province. But there are now 20 varieties on sales and prices have risen at average 26 percent compared with the same period of last year.

In Shuanyashan City, vegetable prices went up by 23 percent, but in Qiqihar prices went down by 32 percent.

CSO: 4020/247

FINANCE AND BANKING

SAVINGS ENCOURAGED TO HELP CHINA'S ECONOMY

Beijing JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY] in Chinese No 16, 12 Apr 85 p 6

[Article by Ying Yixun [2019 1355 6676] of the Zhejiang Banking School: "Savings, Not High Consumption, Should Be Encouraged"]

[Text] Judged by the situation as a whole, China should encourage savings (including personal investment, the same hereafter) instead of consumption in the present stage because it is conducive to developing production and quickly improving the people's living standards.

Encouraging consumption is to adopt various methods to stimulate the people's desire to consume and increase daily consumption. The economic conditions under which encouraging consumption can cause a positive effect are overproduction, slow investment and large amounts of funds lying idle. Under these conditions, only by stimulating daily consumption can we continue to expand the scale of production, invigorate investment and develop the economy. Otherwise, we will result in a recession and reduction of social production.

China's current situation is: The daily consumption level is very low, both the quality and quantity of daily consumption lag far behind advanced world levels and the Engel coefficient is very high; therefore, the people's desire for consumption is fairly strong. Judging from the situation as a whole, there is still a seller's market for consumer goods. The supply of many commodities is not sufficient. Their quality is not good enough. The demand for investment is extremely strong, but there is not enough money. Therefore, judging from the situation as a whole, there is no need, nor is it possible, for us to seek high consumption at present. Otherwise, we will cause serious consequences. Now we have already noticed a sign of danger, that is, a strong desire for consumption which easily leads to inflation of consumption especially among the younger generation who already spend more money than they make. This is not a good thing no matter from what point of view we look at it.

Of course, this in no way means that we should "suppress consumption." Instead, it means that we should pursue natural, rational and moderate consumption. We should let consumers spend according to their ability to pay and according to normal needs. We should let production catch up with and adapt to effective demand, satisfy consumer needs at different levels and quickly eliminate the consequences caused by long-term suppression of consumption in the past.

Judging from China's current situation, we should appropriately encourage savings, namely, encourage people to transfer part of their consumption funds to accumulation funds. On the one hand, we should use propaganda and real interests to stimulate savings desire and provide various conveniences for savings and, on the other hand, we should adhere to the principle of voluntary participation and avoid coercion, especially disguised coercion. China is a poor and vast country. It needs large amounts of construction funds which can only be raised by increasing production and practicing economy through self-reliance. Therefore, encouraging savings should be considered a national policy. One of the important reasons that Japan developed so fast after the war is that their savings offered large amounts of funds. The average savings rate in Japan is about 20 percent. Their savings deposits account for 15 percent of their national income. Half of their accumulation funds come from capital transferred from savings. In 1983, the net income of China's savings deposits was 21.7 billion yuan, less than 5 percent of the national income, much lower than Japan's level.

Some people worry that excessive savings will become "tigers out the cage." This view is one-sided. If economic development is normal, savings can "add flowers to the bouquet," otherwise, they will "add fuel to the flames." Therefore, the key is the normal development of the economy. When economic development is normal, the more savings the better the economy.

12302  
CSO: 4006/626

## FINANCE AND BANKING

### PROBLEMS OF FAST-GROWING SAVINGS DISCUSSED

Beijing JINGJIXUE ZHOUBAO [ECONOMIC WEEKLY] in Chinese No 16, 21 Apr 85 p 6

[Article by Xiao Ji [2556 7221] of Xiangtan University: "How To Look at the Excessive Growth of Savings Deposits--At Present, the National Growth Rate of Rural and Urban Savings Deposits Has Greatly Surpassed That of the People's Income and Consumption Level"]

[Text] Thrift and frugality has been a traditional virtue of Chinese. In the past few years, with a higher income level, the savings deposits of urban and rural residents has increased rapidly.

In my opinion, savings deposits increasing too fast can disrupt the balance between the accumulation and consumption of the national economy as a whole and cause the material composition of the gross products of society to diverge from their value composition.

In the distribution of the national economy, the personal income of urban and rural residents is generally used in consumption. Only the part that is not used temporarily is put into savings accounts. If one of the two increases, the other will decline. When consumption increases, savings will diminish, disappear, or even turn into negative savings (bank loans). Conversely, when savings increase, consumption will diminish. Therefore, savings are a deduction of consumption, not a storage of currency. Through savings, money is centralized and then lent to industrial and commercial departments to play the role of production funds. Therefore, savings are de facto a form of additional accumulation. Changes in the proportion between savings and consumption will inevitably cause the proportion between accumulation and consumption to change again in the distribution of the national economy. In addition, the differences caused by such changes usually double or redouble. In real work, if the previous arrangement for the proportion between accumulation and consumption is improper, saving excessive personal income can effectively readjust this improper proportion. Conversely, if the original proportion between accumulation and consumption is rational, increasing savings will undermine the rational proportion. If the original accumulation is already too

high, fast-growing savings will worsen the imbalance between accumulation and consumption. In other words, there is a possibility of high accumulation hidden in large savings.

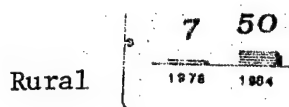
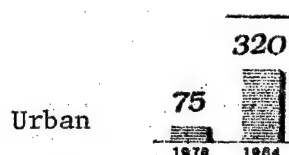
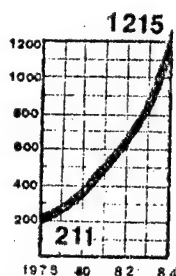
Furthermore, striving to increase savings, which is a good intention, will result in just the opposite. In a society of highly developed commodity production, increasing savings can reduce the effective social demand. Under the control of market mechanisms, production departments will not arrange production according to the amount of funds. Instead, they must first consider market situations. When sales decline on the market, they reduce, instead of increase, their investment and production, thereby slowing down development first in the departments producing the means of subsistence, then in departments producing the means of production and then in the national economy as a whole.

In addition, one-sided growth of savings deposits can also cause the material composition of the gross products to diverge from their value composition. The increase of savings deposits only changes the original form of value, not the material form. This can result in a waste of funds as well as material wealth. It can cause serious effects on the economic results of the whole society and the speed of economic development and result in violent price fluctuations on the market.

#### The Development of China's Savings Deposits:

Yearend Balance (100 million yuan)

Per Capita Savings Deposits (yuan)



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FINANCE AND BANKING

XIZANG MEETING STRESSES CURRENCY CIRCULATION CONTROL

HK240243 Lhasa Xizang Regional Service in Mandarin 0000 GMT 24 May 85

[Excerpts] A regional conference of prefectural and city bank managers concluded recently. The meeting pointed out that controlling the amount of currency in circulation and strengthening control of credit capital is an important condition for enduring the smooth progress of reform.

The meeting seriously discussed and analyzed the current problems of excessive currency in circulation and lack of rationality in the use of credit capital. The participants held: The existence of these problems shows that irrational growth in consumption funds has not yet been completely controlled. Control of cash still does not meet the requirements of controlling the amount of currency in circulation. As far as the use of credit capital is concerned, the erroneous methods of issuing loans blindly without proceeding from the actual conditions, and failing to stress conditions and principles or to put limits on loan amounts and set a deadline for repayment still exist.

To ensure the smooth progress of the price and wage reforms, the meeting pointed out that the banks must strengthen control of cash, control irrational cash expenditures, do a good job in mopping up currency through commodity sales, and thus proceed to stabilize the amount of currency in circulation. It is necessary to control the scale of credit, strictly enforce the principles of issuing loans, and seriously examine the projects for which loans are requested. [passage omitted]

The meeting decided to take the following steps:

1. Strengthen macroeconomic controls to promote the smooth development of the national economy in Xizang. The banks should provide vigorous loan support for projects with good economic results, whose products have sales outlets, and which will increase foreign currency income. [passage omitted]
2. Actively support agriculture and animal husbandry and promote the development of rural commodity economy. [passage omitted]
3. Vigorously promote savings, and actively organize measures to mop up currency in circulation.

4. Do a good job in issuing loans for capital construction. The banks will not issue loans for projects which yield no economic results or lack repayment capability, nor will they issue loans for projects not covered by the plan.
5. Control the irrational growth of consumption funds, strictly screen cash expenditures which are of the nature of wages and salaries, and keep within the state plan the amount of currency in circulation.
6. Strengthen foreign currency controls and promote exports to obtain foreign exchange for the state.

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FINANCE AND BANKING

STRICT CURRENCY, CREDIT CONTROL URGED

Beijing JINGJI RIBAO in Chinese 25 Apr 85 p 1

[Editorial: "Issuance of Currency Should Be Strictly Controlled"]

[Text] Issuing currency strictly according to the needs of national economic development, gearing the volume of currency circulation to that of commodity circulation on the market, and maintaining the stability of currency value is of extremely great significance to balancing economic relations, reassuring the people, doing a good job in the reform of the economic system and accelerating the development of a planned commodity economy. Therefore, under the leadership of the State Council, all localities and departments should make concerted efforts, consider the issuance of currency a matter of prime importance and ensure that it will achieve good results.

At present, China's economic situation is very good. A new situation of continuous, steady and coordinated development has occurred in the national economy after its earnest readjustment and initial reform. However, we should also notice that last year credit issuance was somewhat out of control, consumption funds increased sharply and the scale of extra-budgetary investment in fixed assets was too large, resulting in an excessive supply and circulation of currency on the market. These are minor problems, but we must pay attention to them.

The year 1985 is the last year for the Sixth 5-Year Plan as well as the first year for implementing the decision of the 3d Plenum of the 12th CPC Central Committee. In this year, price and wage reforms will be introduced one after another. We must adhere to the principle of being firm and cautious in the first battle to endure victory, facilitate the introduction of these two reforms and achieve the desired results. For this, we must exercise effective control over the issuance of currency in addition to doing a good job in other relevant work. Otherwise, it will be very difficult to achieve practical results.

Controlling issuance of currency has much to do with policies and involves many fields. It cannot be done without the cooperative efforts of all fields. Credit should be extended in consideration of the need of commodity economic development and the possibility of state

material supply. If credit is extended indiscriminately, currency supply is bound to increase. Conscientious efforts should be made to carry out this year's credit and currency issuance plans, strengthen the control and regulatory functions of the people's bank in the macro-economy, and exercise strict control over the scale of credit and cash supply. This year, the state has adopted a series of control measures in this regard which must be resolutely carried out by banks in all areas. Meanwhile, governments at all levels should conscientiously strengthen leadership over banking work and effectively support and supervise banks in extending loans according to state credit plans and monetary policies. This is an important guarantee for the implementation of the series of measures adopted by the state for the control of currency issuance.

Consumption funds should increase gradually only along with development of production and improvement of labor productivity. Last year, some departments and units increased wages and issued bonuses and cloth indiscriminately, resulting in an abrupt increase of consumption funds and expansion of currency supply. This year, we must make up our minds to stop these unhealthy tendencies. On the one hand, with regard to distribution, enterprises must pay taxes and deliver profits to the state according to state regulations. Production funds are not allowed to be used for consumption. It is not allowed to expand consumption funds under the signboard of "reform" and all sorts of pretexts. On the other hand, financial, auditing and banking departments should strengthen the supervision and control of consumption funds. Pertinent leaders and personnel in charge should be investigated and held responsible for various erroneous practices that run counter to the policy. Necessary administrative discipline and economic sanctions should be meted out to those involved in serious cases. At the same time, great efforts should be made to reduce administrative expenses and strictly control the purchasing power of social organizations.

It is necessary to control the scale of extra-budgetary fixed assets. Appropriately increasing fixed-asset investment and expanding production capacity is necessary. But the scale of investment must be increased according to the capacity of China's material and financial resources. In the past few years, the scale of extra-budgetary fixed-asset investment in China has been too large, exceeding the capacity of state financial resources. To change this situation, we must exercise strict control over the scale of extra-budgetary fixed-asset investment. This year, the construction bank should issue capital construction loans strictly according to state plans. All specialized banks must also issue technological transformation loans strictly according to state plans. It is absolutely forbidden to ignore state plans and compete with each other in issuing fixed-asset investment loans. This is required to guarantee the steady development of the national economy and increase the investment results of fixed assets. All regions and departments should conduct strict screening of fixed-asset investment projects. All extra-budgetary projects

should be resolutely stopped. Duplicate construction projects should be resolutely canceled. Those projects which can be carried out later should be shelved for an appropriate period. Those budgetary projects which are now being carried out should be carried out with concentrated efforts to form production capacity as soon as possible.

Controlling currency issuance and credit scale must not be understood as tightening money supply in general terms. Those which should be controlled must be controlled; those which should be supported must be supported. We should use limited funds where they are most needed and increase the results of the utilization of funds. Therefore, banks should distinguish between important and urgent projects according to state plans and guarantee money needed for key projects with due consideration for general projects.

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## FINANCE AND BANKING

### HISTORICAL DEVELOPMENT OF CURRENCY, PRICE ANALYZED

Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 4, 11 Apr 85  
pp 1-8

[Article by Xue Muqiao [5641 2550 2890]: "How I Studied Currency and Price Issues"]

[Text] There are two ways of studying, from practice to theory, or from theory to practice. Judged by human history, mankind gradually learned the objective laws of the development of things and formed theories in the practice of production and then guided practice with theories. Today, with highly developed scientific knowledge, people can first study the theories created by their predecessors and then apply these theories in practice and continue to develop them in light of scientific research. When I studied currency and price issues, I basically took the road from practice to theory.

Although I had studied political economics before I joined economic management work, I knew nothing about currency and prices except for some general knowledge of Marxist theory. Marx, who lived in an era of metal currency, correctly pointed out that price is value in the form of currency and the proportion of commodity value to the value represented by currency which refers to the value of a definite amount of gold. Gold can be easily carried about (because it is expensive) and can be separated and combined. Its supply and demand is extremely stable because it has been produced and amassed by mankind over a period of several thousand years and very little is produced and consumed each year. Because of this, for a long time gold was used to make currency, thus becoming the material bearer of value represented by currency. When China used the silver standard, 1 yuan represented 7.2 qian of silver. The value of currency (gold and silver) then was fairly stable. So were prices. However, when I joined economic work, metal currency no longer existed in China and currency was long divorced from gold and silver. At that time, prices were rising continuously because of inflation. Then, what really determines the value represented by currency? What is the objective law of currency value and prices? What method shall we use to stabilize currency value and prices? During many years of practice, I gradually developed some views on these issues.

When I led a group of high-class intellectuals on a trip to Yan'an via Shandong from central China in February 1943, the Shandong police substation was launching

a currency struggle against Fabi [3127 1578] and Weichao [0298 6872] in an effort to stabilize prices. In order to stabilize prices, liberated areas issued independent currency called Benbi [2609 1578]. (Then Shandong used "Beihaibi" issued by the Beihai Bank.) Circulating counterfeit money issued by the enemy and the puppet government was banned on the market. Fabi, which was issued by the Kuomintang Government, was allowed to be circulated simultaneously with Benbi on the market at the exchange rate of one to one because the cooperative relation between the Kuomintang and the Chinese Communist Party was not completely severed at the time. However, Fabi could be circulated nationwide (in order to absorb Fabi and ship it to Shanghai to be converted into U.S. dollars, then Japanese occupied areas allowed Fabi to be freely circulated as Weichao), but Benbi could only be used in liberated areas. Because of this, businessmen preferred using Fabi and the exchange rate of Benbi was lower than that of Fabi on the black market. More seriously, the galloping inflation of Fabi had already begun at the time, resulting in sharp increases in prices and serious losses to the government and the people of liberated areas.

The Shandong police substation knew I studied economics; therefore, I was asked to stay in Shandong and was authorized to direct the currency struggle in the liberated area of Shandong. After a period of investigation and study, I suggested that circulating Fabi be banned and Benbi be allowed to monopolize the market in order to stabilize prices. Because of the unrestricted inflation of Fabi, liberated areas would not be able to stop inflation and stabilize prices if a large amount of Fabi was allowed to flow in liberated areas. If a large amount of Fabi circulated in liberated areas, there must be an equal value of goods and materials flowing out of liberated areas into the hands of other people. Fabi continued to depreciate and simultaneously caused loss to the people of liberated areas who had Fabi. It was like paying tribute to the Kuomintang Government. In order to change this situation, we had to make up our mind to stop the circulation of Fabi on the market and have all Fabi exchanged at the Beihai Bank along the border between enemy-occupied and liberated areas according to the exchange rate set by the Beihai Bank in light of the price of Fabi on the black market and the supply and demand situation of Fabi in foreign trade (trade with enemy-occupied areas). The substation adopted my suggestions and declared that the use of Fabi be stopped beginning in August. The people were encouraged to exchange their Fabi for various goods and materials in enemy-occupied areas or convert it into Benbi at the Beihai Bank, which then would entrust publicly owned stores to buy goods and materials needed by liberated areas with Fabi in enemy-occupied areas. As soon as this law was promulgated, Fabi depreciated immediately and 1 yuan of Fabi equalled only 0.6 yuan of Benbi. After the use of Fabi was stopped, Fabi continued to depreciate. By the end of the year, 6 yuan of Fabi was needed to exchange for 1 yuan of Beihaibi.

After the use of Fabi was stopped, the Beihai Bank lacked the ability to satisfy the market demand for Benbi, causing prices to decline one after another. Price increases are harmful to the people. So are price declines. It happened to be the harvest season. Peasants were hurt because the price of grain was low and many newly established supply and marketing cooperatives lost money and went bankrupt because of the price decline. In view of this situation, the

Beihai Bank promptly increased the issue of Benbei and gave it to publicly owned stores to procure export commodities, such as farm products and peanut oil. This enabled me to have a better understanding of the seasonal characteristic of currency distribution in the vast rural areas. In other words, more currency should be issued in autumn and winter to procure farm products which will then be released to withdraw currency from circulation and stabilize prices when prices increase in the coming year between spring and summer (the shortage period). In the first year, because of a late start, prices declined and we failed to procure farm products in a timely manner to guarantee the issuance of currency. In the second year, because we did not have enough goods and materials to withdraw currency and stabilize prices during the shortage period, prices increased again up to and slightly above the level of August of the previous year. This twist and turn caused loss to both the government and the people. Through this experience, I began to realize the relation between the issue of currency and the rise and fall of prices and how the state should maintain the stability of prices by controlling the amount of currency issued.

Fabi began to depreciate in 1943. In 1944, Weichao also began to depreciate. In January 1943, 1 yuan of Weichao could be exchanged for 1.5 yuan of Benbi. By January 1944, it could only be exchanged for 0.15 yuan. Because the exchange rate of Benbi increased rapidly compared to that of Fabi and Weichao, everybody bragged about the "great victory" of the currency struggle against the enemy, saying that Beihaibi defeated Weichao and Fabi. I said it was impossible for Beihaibi to defeat Fabi and Weichao because Beihaibi was issued only in Shandong Province whereas Fabi and Weichao were circulated in the greater part of China. The slump of Fabi and Weichao was a result of their runaway inflation. The achievement of our currency struggle was to protect the price stability of liberated areas from the plunder of Fabi and Weichao during their runaway inflation. Some of our liberated areas never did stop using Fabi, causing many goods and materials to flow out of liberated areas along with large amounts of Fabi. The loss was immeasurable. In May 1945, we called an industrial and commercial work conference of liberated areas in Shandong, summed up our experiences in the currency struggle and the trade struggle (which was to break through the enemy blockade and ship and sell sea salt in a unified manner to support the currency struggle and exchange for various goods and materials needed by liberated areas)\* and raised the experiences gained in practice to the plane of theory.

After Japan surrendered in 1945, an American reporter (an economist) came to visit us. He thought it was a real miracle that Benbi was able to defeat Fabi and Weichao in the Shandong liberated area where currency was not based on gold and foreign exchange reserves and economic conditions were much inferior than those in areas where Fabi and Weichao were circulated. I talked to him for 4 hours explaining that in a market where only money currency is circulated the value of currency is determined by the volume of currency issued. The only secret in the victory of Benbi over Fabi and Weichao was the fact that during the period of the runaway inflation of Fabi and Weichao, we exercised strict control over the volume of currency circulated, prevented it from

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\*For details, see "The Economic Work of the Shandong Liberated Area," published by the People's Publishing House in December 1979.

exceeding the demand of market circulation and readjusted it in accordance with the changes in the demand of market circulation. After talking to me, this U.S. economist highly approved of my opinions.

In the spring of 1947, a financial and economic work conference of various liberated areas in north China was held in Handan. At first, the participants at the conference disagreed on the issue of whether liberated areas should stop using Fabi and establish the independent market of Benbi. Some comrades contended that liberated areas should use Fabi as the main currency and Banbi as the supplement with a fixed rate of exchange between the two. A few years before, some areas (such as central China) did not stop using Fabi, but because Fabi continued to depreciate, they had to constantly change the rate of exchange between Fabi and Benbi in order to maintain the relative stability between the value of Benbi and prices. When the discussion came to an end, everybody agreed to adopt the measure used by Shandong, Shanxi, Hebei and Henan--namely, to stop using Fabi and establish an independent market of Benbi. We included this opinion in the general report. At the time, the value of currency and prices varied and changed constantly in various liberated areas. However, the general trend was that prices were increasing slowly at varied speed. After calculating the volume of currency issued in all areas and analyzing the changes of prices, I discovered a pattern--regardless of the changes in the situation, the average per capita currency circulation was equivalent approximately to 30 jin of millet in liberated areas. Prices were higher in areas where more currency was issued; prices doubled as the volume of currency doubled. Therefore, the result was still 30 millet. This led to the discovery of the pattern that the volume of currency issued and prices increase in tandem provided other conditions remain unchanged. If the population of liberated areas double, the volume of currency issued may also be doubled without resulting in price increases. The volume of currency should be increased or reduced according to the demand of market circulation in different farm product production and marketing seasons. This is the law that the volume of currency issued should conform to the demand of commodity circulation. Before the War of Resistance Against Japan, the average volume of currency issued per person was approximately 3 yuan of Yinyang in the country. Most liberated areas were rural areas where commodity circulation was far behind that in urban areas; therefore, currency issued per person was approximately 1 yuan of Yinyang--namely, the price of 30 jin of millet.

After Japan surrendered, because the liberated areas expanded rapidly, we had the condition to increase the issue of currency and continue to maintain price stability. However, after taking over some cities, the number of military, government and school employees who were on the government payroll increased rapidly. Because of this plus the need to maintain market stability and restore industrial and commercial enterprises destroyed by war, the increased rate of expenditures far surpassed that of revenue. Especially because the Kuomintang started the civil war, the liberation war continued to escalate, the People's Liberation Army expanded from 1 million to 5 million people and the expenditures on war were exorbitant. Since most of our expenditures were paid by issuing more currency, prices were more stable during the War of Resistance Against Japan. After liberating Beijing and Tianjin, the central government decided that efforts should be made to first satisfy the needs of

war and then control prices as far as currency issue was concerned. Due to the 12 years of galloping inflation under the leadership of the Kuomintang, prices increased several 100- or 1,000-fold every year, giving birth to a group of capitalist speculators in large cities who tried to reap staggering profits by driving up prices. As a result, prices increased four times during the more than 1-year period from the liberation of Beijing and Tianjin to March 1950.

Comrade Chen Yun, then in charge of financial and economic work, correctly pointed out that price increases were caused by inflation and inflation was caused by deficits. Since deficits could only be offset by issuing more currency, only the complete victory of the liberation war could balance revenue and expenditures, stop inflation and stabilize prices completely. He also pointed out that price increases were very harmful to the cause of restoring production and stabilizing the people's standard of living. The priority of our economic work should be given to stabilizing prices in addition to supporting the war. The way to do so was to control important goods and materials, especially grain and gauze which were hot-selling items to capitalist speculators, by conducting unified allocation and transfer nationwide while controlling the volume of currency issued. This was to cope with capitalist speculators and enable prices to increase in a planned manner according to our wishes. By March 1950, national revenue and expenditures were all centralized in the central government and revenue and expenditures were close to a balance. In view of this situation, the people's government stabilized prices once and for all by issuing bonds, curtailing credit and releasing large amounts of grain and gauze to the market, causing prices to decline in a short period of time and dealing a fatal blow to capitalist speculators.

Then industrial and commercial capitalists thought, based on their several years of experience, that it was unavoidable for prices to increase continuously and impossible for the Communist Party to stabilize prices, thus concluding that we were unable to manage economic work well. All of a sudden, prices were stabilized, they could not sell the commodities they had hoarded for speculation even after they cut prices; therefore, they had no choice but to seek help from the state. The central government decided to readjust privately owned industrial and commercial enterprises, buy their stocks and adopt the measure of processing and placing orders to help them restore production. During the period when prices increased continuously, people rushed to buy goods and materials as soon as they got money. Very little currency was circulated especially in rural areas, about 1 yuan to 1.2 yuan of Yinyuan per person. After prices were stabilized, the people began to save money and currency was circulated in rural areas too, thus resulting in a shortage of money supply (the volume of currency issued could not satisfy the demand of market circulation). As a result, many manufactured goods and farm products could not find buyers. In view of this situation, the state increased currency supply, purchased large amounts of industrial and farm products and prevented prices from declining.

In January 1949 the supply of Renminbi [RMB] was 50 million yuan. By February 1950 it was increased to 600 million yuan. After that, it was not increased significantly for several months because of the effort to stabilize prices.

After autumn harvest in October, RMB supply was increased to 790 million yuan. By December it was increased to 940 million in order to guarantee that the prices of farm products would not decline. The fact proved that as long as we properly control currency flow and regulate it in accordance with market demand, it is totally possible to maintain the stability of prices. There is no scientific basis for the traditional idea that continuous price increases are unavoidable.

In 1950, prices in China were stable with a slight decline. In 1951, prices increased 12.2 percent due to the eruption of the War to Resist U.S. Aggression and Aid Korea and the readjustment of some underpriced commodities. After that, prices were basically stable with a slight increase for several years. Compared with the prices in 1950, prices increased 21.3 percent in 1957 and 26.5 percent in 1960. Because "the 3 years of the Great Leap Forward" had caused agricultural, light and heavy industrial production to decline one after another and the supply of currency to increase substantially (from 5.28 billion yuan in 1957 to 12.57 billion yuan in 1961, namely, an increase of 1.4-fold), prices increased by a relatively large margin in 1961 and 1962. The price index of 1962 was 152.6 percent, 25.8 percent higher than that of 1957. In 1961, the central government began to adopt the readjustment principle and substantially reduced the investment of capital construction, thus withdrawing a large amount of currency from circulation. By 1964, currency supply was reduced to 8 billion yuan and prices began to decline instead of increasing. The price index of 1965 was 134.5 percent, 12 percent lower than that of 1962. The fact again proved that it is possible for socialist countries to stabilize market prices by controlling currency flow.

Stabilizing prices is not the same as freezing prices. Affected by natural conditions in the development of agricultural production, the cost of production may increase instead of declining as production increases. When the yield per mu of cotton and grain increases, cost of production also increases. In order to promote agricultural production, the state must continue to increase the prices of farm products. Restricted by the conditions of natural resources, mineral products also have the same tendency. The production cost of light industry products which use farm products as raw materials has increased slightly. For instance, the price of cotton cloth was high and its profit was great in the 1950's. After the 1970's, especially in the early 1980's, it began to lose money due to the several price increases for cotton. In 1983, after its price was raised, cotton cloth was again able to make a small profit. The production cost of those light industry products which use heavy industrial products as raw materials declines as their output increases. Therefore, their prices may be reduced accordingly. For instance, the prices of wristwatches, radios, television sets, refrigerators and washing machines have been continuously reduced over the years in accordance with the decline in their cost of production. In the early 1960's, price control was rigid and price readjustment was often untimely for fear of price increases, causing the prices of many products to diverge from their value and resulting in an adverse effect on the balance of the production and marketing of these products. In 1960, because prices were stabilized again, the central government asked the National Pricing Committee to formulate a 5-year price readjustment plan in an effort to readjust the prices of various products to reflect their value and relax the price control

system. Unfortunately, the "Great Cultural Revolution" broke out in 1966. For fear of a market disorder, the central government ordered prices be frozen, a freeze which lasted for a decade. During this period, the production cost of various products changed constantly, the divergence of prices from value became more and more serious and the irrationality of prices became a major obstacle in the balanced development of the national economy.

In order to reassure the public, we were afraid of making substantial readjustment in prices in the years immediately after the smashing of the "gang of four." In 1979, in order to encourage the peasants to develop production, the 3d Plenum of the 11th CPC Central Committee, in addition to implementing the production responsibility system, raised the purchasing prices of farm products by a wide margin and increased the prices of some major farm products in above-quota sales as an incentive. The price increase of farm products, like the implementation of the production responsibility system, became an important motive force in the rapid development of agricultural production. Its results were plain to see. However, in order to further increase the peasants' income, many localities increased the variety of farm products entitled to the price increase in above-quota sales, lowered sales quotas and increased the incentives for above-quota sales, thereby causing the price increase of farm products to surpass the original plan by a large margin. At the same time, because the state had increased the wages of staff members and workers and issued more bonuses, the increase of the wagebill (including bonuses) also surpassed the original plan. Because the people's purchasing power increased extremely fast and because the implementation of enterprise profit-sharing systems dug into state revenue, in 1979 we witnessed 17 billion yuan of deficit--the biggest in the history of new China. To offset this deficit, an additional 9 billion yuan of currency was issued. Prices in 1979 and 1980 increased by a relatively large margin. Although deficits have been gradually reduced since 1980, because the investment scale of capital construction and the increase of the people's purchasing power have surpassed the state plan, currency supply is still too much and prices are still unable to remain completely stable. During the price increase of farm products, in order to stabilize the living standards of staff members and workers, the state increased the purchasing prices of grain and edible oil but not their sales prices, resulting in a situation in which purchasing prices were higher than sales prices and losses resulting from this were subsidized by the state. In the past few years, because agricultural production has increased rapidly and procurement bases have remained unchanged, the proportion of farm products procured at higher prices and state price subsidies have increased continuously. By 1983, state price subsidies had exceeded 20 billion yuan, accounting for about 20 percent of total revenue. Therefore, another new problem has arisen, that is, a cycle of ever-increasing deficit, currency supply and price subsidy. Western economists refer to this problem as "latent inflation." In the past few years, the increase rate of prices has not been very high, generally about 2 percent. But the price increases of nonstable foodstuffs have been fairly significant. The people are still very worried about whether or not the state is able to stabilize prices.

In the past few years, China's economic work has been focused on readjusting the proportions of the national economy. On this basis, China has reformed

the economic management system. Fairly outstanding achievements have been scored in readjusting the ratio between accumulation and consumption as well as the ratio among agriculture, light industry and heavy industry. But, supply and demand have not been balanced in agricultural and industrial departments because the irrational price system has not been readjusted. The increase in the output of many raw materials in short supply has been readjusted. The increase in the output of many raw materials in short supply has been very small for a long period of time because their prices are low and their profits, small; whereas the processing industry whose products are of high prices and can yield big profits have increased rapidly. Moreover, the rush of localities and enterprises to invest in the processing industry after they were given decision-making power has caused the contradiction between the two fields to become increasingly acute. The state has made every effort to strengthen the investment of such weak links as energy and communications. But, because the processing industry has developed too fast, judged from a long-term point of view, this contradiction has not been solved fundamentally. Even in the processing industry, the speed of development varies because of irrational prices. For instance, matches are most easy to produce. However, due to the price increase of timber and the deficit of production, matches have not been able to satisfy market demand for a long time. Apparently, it takes much more than political and ideological education to find a fundamental solution to the phenomenon that the people work hard for big profits, work a little for small profits and refuse to work for no profits. The fundamental solution is to readjust prices in accordance with the law of value and guide enterprises to produce more products in short supply which are most needed by the state and the people. However, because the people are too sensitive about price fluctuation, we have been postponing the price increase of matches, although it is only 1 fen for each box.

After the Second Session of the Sixth NPC in 1984, we should shift the focus of work to reforms, especially the reform of industrial and commercial management systems, while continuing to fulfill the readjustment task. We should expand enterprises' decisionmaking power. At the same time, we should direct them to develop in the direction specified in the state plan. The main method is to utilize economic levers correctly in accordance with the objective law of economic development. The most important part of utilizing economic levers is to readjust prices. However, because we have given undue publicity to the stability of prices and considered it the only principle for pricing work for over 30 years, we are now afraid of advocating under the current situation that price readjustment is the key to reforming the economic management system, readjusting the industrial lineup and ensuring the balance between the production and sales of various products. We should understand the objective law of price changes, maintain the stability of prices by controlling currency supply and increase or reduce the prices of various products in a planned manner during the readjustment. If we freeze prices for a long time and maintain the absolute stability of prices by taking the fat to pad the lean, we would lead our economic work to a dead end and be unable to find the road of progress.

It was in these developments of history that I earnestly explored the objective law of price changes and formed the following views:

A. Price is the ratio between the value of various commodities and the value represented by currency. How do we calculate the value represented by currency? During the period of metal currency, currency value is the value of the gold or silver content in the currency. Since paper currency replaced metal currency and currency was divorced from gold and silver, the value represented by paper currency has been determined by its supply and the demand of social commodity circulation for currency. If the demand of currency circulation remains unchanged and currency supply doubles, the value represented by currency will be reduced by half and prices will double. If currency supply remains unchanged after prices double, currency supply will be able to meet the demand of currency circulation and prices will stop increasing. Based on my practice, I deeply believe in this law. However, it is not very easy to make economists recognize this law, because Marx once said in "Capital" and "Critique of Political Economy" that gold and silver in nature is not currency, but currency in nature is gold and silver. Because of this, there are still many economists and political economics textbooks continuing to believe that currency can only represent a definite amount of gold. Then, how much gold does China's RMB really represent? There is no answer, not even among these economists. Some comrades criticized my views as being divorced from Marxism. After consulting many works of Marx, I found that Marx once said in "Critique of Political Economy" that the national paper currency of compulsory circulation is a complete form of the symbol of value. This kind of credit currency belongs to a higher stage in the production process of social commodities. It is controlled by a completely different law. Marx also said that "the value of paper currency is determined by the circulating volume of paper currency." Based on his brilliant logical deduction, Marx successfully predicted over a century ago that paper currency will replace metal currency in the future and expounded the objective law that determines the value represented by paper currency.

It is not difficult to debate with those economists who are divorced from reality, but it is difficult to calculate the circulating volume of currency needed by society. Ordinarily, we simply say that the increase of currency supply should conform to the increase of total commodity sales. The reality is not so simple, because: 1) To be more accurate, we should take into account labor remuneration in addition to total commodity sales. Remuneration is not commodity exchange, but it needs to be paid in cash. 2) We should deduct noncash commodity exchanges (namely, paid with checks and credit cards) from total commodity sales. In developed capitalist countries, the volume of non-cash payments is already several times greater than that of cash payments. By "inflation rate" they generally mean the price index of retail sales instead of the increase rate of currency supply. In China checks are used only in wholesale and large payments. Retail stores still use paper currency. Therefore, whether or not the increase rate of currency supply conforms to that of social commodity sales still is an important basis for the stability of prices. 3) Total currency supply by no means equals social commodity sales, because each piece of paper money is circulated several times a year on the market. Therefore, total currency supply should be total social commodity sales divided by the frequency of annual currency turnover. Ordinarily, currency turnover is relatively stable. In the 1950's and 1960's, currency turned over about 8 times a year in China (urban staff members and workers were paid 12 times a year and peasants generally had 2 to 3 harvests a year.) However, during

the period of galloping inflation, namely, when currency supply and prices increased sharply, the people would rush to withdraw deposits from the bank and purchase all commodities, causing currency to turn over within just a few days. This happened in varying degrees to Weichao, Fabi and Jinyuanjuan in the War of Resistance Against Japan and the Liberation War and to RMB during the period between 1949 and March 1950. A similar situation occurred (to a lesser degree) during the period of economic difficulties in 1961 and 1962. 4) In China, agricultural production still accounts for a large proportion of the economy. Because agricultural production is seasonal, the demand for currency circulation should also be seasonal. After the summer harvest and especially the autumn harvest, currency supply should be increased slightly. Between February and June, large amounts of currency should be withdrawn from circulation. Although demand for currency circulation is so complicated, we can predict it because we have already had several decades of experience.

B. The law between inflation and price increase. In the War of Resistance Against Japan and the Liberation War, revolutionary bases and the government of liberated areas gradually realized in practice the objective law between inflation and price increases. During the period of price fluctuations before and after the founding of the PRC in 1949, Comrade Chen Yun summed up past experiences and pointed out the objective law among financial deficits, inflation and price increases. He controlled the increase rate of currency by regulating in a planned manner the circulating volume of currency and the supply of grain, gauze and other important goods and materials and achieved success in stabilizing prices by correctly applying the objective law.

Stabilizing prices has always been considered an important task of economic work in the past 30 years. Therefore, the people deeply believe in the policy of achieving three overall balances--between financial revenue and expenditure, credit income and expenditure and the supply and demand of goods and materials--set forth by Comrade Chen Yun. This belief was once shaken in the 3 years of the Great Leap Forward and was later stabilized after policy readjustments in 1961 and 1962. During the 10-year turmoil, social order was in great confusion, but under the leadership of Premier Zhou, economic work still adhered to the policy of three overall balances which eventually led to a price freeze. During these 10 years, prices remained fairly stable, but because prices were divorced from value, many commodities were stockpiled or sold out on the market, causing difficulties in the people's standard of living and great difficulties in the price readjustment which was carried out later. Since the 3d Plenum of the 11th CPC Central Committee, we have quickly improved the people's living standards and increased the purchase prices of farm products. The economic situation is getting better and better. However, because we failed to do a good job in overall balancing at the turning point, we had 17 billion yuan in deficits in 1979 and 12 billion yuan in deficits in 1980. Because of this, currency supply and prices have increased slightly (most deficits have been balanced off by the increase in the savings deposits of the people). Although the increase is smaller than that of capitalist countries, our people are still complaining about it. To prevent prices from increasing, the state increased the purchase prices, but not sales prices, of grain, edible oil and other major consumer goods, causing purchase prices to be higher than sales prices and forcing the state to extend huge amounts of price subsidies which

will adversely affect the balance of revenue and expenditure in the future. If we fail to increase revenue and reduce expenditures in other fields, we might cause an endless cycle of deficits, inflation, and price and subsidy increases. Therefore, readjusting prices on the basis of basic stability and reducing and eliminating most price subsidies has again become an important task confronting us.

Since the 3d Plenum of the 11th CPC Central Committee, we have carried out some reforms in financial and monetary management systems. In the past, all investment in fixed assets came from the allocations of financial departments. Even the quota part of enterprises' circulating funds also came from financial allocations. Only temporary circulating funds came from bank loans. In addition to issuing loans for temporary circulating funds, banks handled the collection and payment of revenue and expenditures for financial departments and accepted savings deposits from the people, but they were not authorized to issue loans for fixed-asset investment. Since the 3d Plenum of the 11th CPC Central Committee decided to expand local and enterprise decisionmaking power and increase the people's purchasing power, enterprises have deposited their own funds in the bank and the people's savings deposits have increased substantially. Meanwhile, because revenue fell short of expenditures, banks were allowed to use enterprise deposits and the people's savings deposits to issue small, short-term loans for fixed-asset investment and loans for all circulating funds of newly established enterprises. As bank loans for fixed-asset investment (including enterprises' technological transformation and equipment renewal) has increased substantially, they are now almost equivalent in quantity to state allocations for fixed-asset investment. Loans for fixed-asset investment are granted by the Industrial and Commercial Bank, the Construction Bank, the Bank of China, the Agricultural Bank and the Investment and Trust Co which were spun off by the People's Bank of China. There is a possibility that they may compete with each other and cause credit inflation. Because of this, the People's Bank of China should exercise the functions of a central bank and become the bank of banks. In addition to exercise of control over the issuance of currency, the People's Bank of China should exercise control over the fixed-asset loans of various banks and order, if necessary, various banks to transfer some of their deposits to the central bank to avoid credit inflation. In the past few years, fixed-asset investment has exceeded the state plan, contributing to the cause of credit inflation. Therefore, to avoid inflation and maintain the stability of prices, the state should not only eliminate deficits but also avoid credit inflation.

C. Readjustment of prices and reform of economic management system. As far as price control is concerned, socialist countries have a task that is more important than maintaining price stability and that is to control and readjust prices in accordance with the changes in the production costs of various products and the supply and demand situation on the market. In capitalist countries, prices are automatically regulated by the law of value therefore, there is no problem of price readjustment. In socialist countries, the prices of many commodities--which are called planned prices--are set by the state. Since it is impossible for state price-control departments to readjust the prices of millions of commodities as soon as their production costs or market

supply and demand situation changes, they often cause prices to diverge from value, thereby adversely affecting the balance between the supply and demand of various products and causing difficulties to the proportional development of the national economy. Thus, the state should exercise control over only the prices of a few means of production and consumer goods which have a vital bearing on the national economy and the people's standard of living and allow the law of value to regulate the prices of minor general commodities automatically. Control over the commodities of planned management should not be too strict either. There should be some room for maneuver. In China, the means of production, such as coal, most need strict control. However, small local coalpits should still be allowed to set their own prices. Large coal mines should be allowed to sell their surplus products at negotiated prices after fulfilling state transfer quotas. Consumer goods, such as grain, are procured and supplied by the state at list prices according to plan. However, peasants should still be allowed to sell their surplus grain at negotiated prices on the market after fulfilling state sales quotas.

Socialist countries do not have to adopt the system of planned procurement and supply which was established when many commodities were in short supply. In the first few years following the founding of the country, China did not have planned procurement, supply and prices. Then industrial products were planned and managed by state-run commercial units which guided privately-run industries to meet state requirements by processing goods and signing contracts. They allowed higher profits for products in short supply and lower profits for products in excess supply. The planning and management of farm products completely relied on the pricing policy, by which supply and marketing cooperatives raised prices for products in short supply and lowered prices for products in excessive supply. At that time, the scale of capital construction was very small, the people's purchasing power was very limited and the supply and demand of various commodities were basically balanced; therefore, there was no need to strengthen planning and control. During the period of the First 5-Year Plan which began in 1953, the scale of capital construction expanded rapidly and the means of production were in short supply, giving us no choice but to begin planned supply and planned prices. Because urban population and the purchasing power of workers and peasants increased very rapidly, we had no choice but to carry out the requisition and unified purchase of grain, oil-bearing crops and cotton and the rationing of grain, edible oil and cotton cloth. At that time, because there were many privately run industrial and commercial enterprises, the state still used the methods of processing, ordering goods and sales on commission to maintain the stability of prices of many commodities and allowed industrial and commercial capitalists to make rational profits. Because of this, the market control was still fairly flexible. After the socialist transformation of industrial and commercial enterprises was completed, especially during the 3 years of the "Great Leap Forward," the scale of capital construction and urban population increased rapidly and the means of production and consumer goods were in great demand, forcing us to strengthen the planning and control of the distribution of production means and consumer goods (such as assigned purchase and rationing of pork and eggs). Strengthening control can stabilize prices temporarily, but it cannot increase production (for instance, output of pork and eggs decreased as soon as assigned purchase was carried out), causing the contradiction between production and sales to become increasingly

serious, many commodities to be constantly out of the market, production to decline and maintaining the people's standard of living to become increasingly difficult.

Then many economists praised the superiority of the planned procurement and supply system, not knowing that it was a measure we had to adopt under the situation in which many commodities were in seriously short supply. Judged from a long-term point of view, this system is not conducive to development of production and improvement of the people's living standards. In 1961 and 1962 we were forced to adopt readjustment measures and reduce the scale of capital construction by a large margin, causing the production of heavy industry to decline. Because the reduction in capital construction was much greater than in heavy industry, the shortage of the means of production was alleviated. Because we reduced the scale of capital construction and the production of heavy industry while greatly reducing urban population and easing requisition and assigned purchase tasks, agricultural and light industrial production improved rapidly. The supply of consumer goods increased, the production and sales of many daily necessities which were previously out of the market were balanced and prices of many high-priced and low-quality products were forced down because of a lack of a market.

In order to stabilize market prices during that period, 18 consumer goods were supplied on a ration basis (each urban resident was supplied 2 liang of pork a month and each peasant was supplied 3 chi of cotton cloth a year). Prices remained unchanged and losses resulting from this were subsidized by the state. Meanwhile, several high-priced commodities (such as high-priced candies, snacks and dishes served at restaurants) were put on the market in a planned manner with their prices raised to such a level, about three to four times higher than planned prices, that they could be supplied freely without rationing. In addition, free markets were open in large, medium and small cities. At these markets, farm products were allowed to be sold at negotiated prices, about five to eight times higher than state list prices. Due to the implementation of these two flexible measures, we could satisfy certain demands of urban residents with relatively good results and increase the peasants' income under the unusual situation, thus accelerating the restoration of agricultural production. The state sold many high-priced commodities, withdrawing 5 billion yuan of currency from circulation, and reduced the investment of capital construction, resulting in a marked reduction in the market circulation of currency, which in turn caused the prices of free market commodities to decline. The prices of high-priced commodities also declined gradually to the original level. Many rationed commodities were able to be supplied freely. This explains that the expansion of planned procurement and supply is not the superiority of socialism, but the result of an imbalance in the national economy. A socialist planned economy should guarantee the proportional development of the national economy and purposely use the law of value to maintain the balance between supply and demand of various products. This condition makes it possible to relax the planned procurement and supply and the planning and control of prices, which all rely on administrative means, and thereby invigorate the market.

During the 10-year turmoil of the "Great Cultural Revolution" the state ordered prices frozen for fear of market disorder. During the 10 years of the price freeze, the production cost of various products and the supply and demand situation of the market changed drastically, causing prices of many products to diverge from their value. The expensive and highly profitable products of the processing industry were developed indiscriminately while inexpensive and less profitable or money-losing farm and mineral products were unable to meet the demand of the processing industry and the market. Many enterprises "worked hard for large profits, worked little for small profits and refused to work for no profits." More often than not, their economic activities violated the demand of state plans. Under this circumstance, the state had no choice but to strengthen the planning and control system which relied on administrative means. However, without price readjustment, it would be very difficult to achieve any result even under the planning and control system. For instance, the planned supply of coal was most stressed, but because of the low prices and small profits of coal, many coal mines lost money. These coal mines reduced the volume of planned transfer and saved as much coal as possible to be sold at negotiated prices to turn deficits into profits. Due to the planned supply of coal falling short of demand, many coal-consuming localities and enterprises also rushed to purchase coal at negotiated prices to guarantee the development of their production.

In 1979, the state was determined to increase the purchase prices of farm products by a large margin, causing agricultural production to develop rapidly. Now that grain, edible oil and cotton can all satisfy the demand of production and the market, it is possible to relax the planned procurement system, eliminate the assigned purchase system of pork and eggs and rely mainly on pricing policy to bring agricultural production in line with the state plan. In the past few years, manufactured goods have not been readjusted on a large scale for fear of market disorder. Consequently, many products have been stockpiled. Many products have been out of stock and there is no fundamental solution for this phenomenon. In fact, if prices are not readjusted, the supply of many products will be out of line with sales which unavoidably will result in market disorder. On the contrary, if prices are readjusted according to the law of value and enterprises' activities are guided to meet the demand of the state plan, the phenomenon of market disorder will be fundamentally overcome.

Since the 3d Plenum of the 11th CPC Central Committee, we have expanded local and enterprise decisionmaking power and somewhat relaxed the planning and control system. From now on, we will adopt further measures to invigorate the market. By doing so, we can further expose the contradiction between the structural reform and the irrational pricing system. Especially after enterprises are allowed to assume sole responsibility for their own profits and losses after taxes, the phenomenon of unfair profits and losses is bound to occur among different industries and enterprises under the condition of irrational prices. At present, since the people throughout the country are afraid of price increases and the revenue and expenditures of financial departments and currency issuance are not sufficient to guarantee complete price stability, we can only use product tax to alleviate the contradiction caused by the irrational price system. However, this is only an expedient measure. It cannot solve the problem fundamentally. The fundamental solution still lies

in a planned and step-by-step price readjustment. Many noted foreign economists who have visited China say that the key to the success of China's economic structural reform is whether or not the irrational pricing system will be readjusted. This makes sense from a long-term point of view. Therefore, combining price readjustment with the reform of economic management system, and studying how to use the most important economic lever of prices to give our planning and control system flexible control and controlled flexibility has become an extremely important subject for our study of the price issue.

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FINANCE AND BANKING

JINGJI GUANLI ON CITY'S APPROACH TO PRICE REFORM

HK140953 Beijing JINGJI GUANLI in Chinese No 4, 5 Apr 85 pp 7, 8

[Article by the Research Office of Shijiazhuang City CPC Committee: "Positively and Steadily Reform Commodity Prices to Promote Economic Development"]

[Text] Beginning last year, Shijiazhuang City has broken away from the fetters of "leftism" in its work of price reform, overcome the mentality of "waiting for and relying on instructions from the upper levels," and gradually enlivened prices and straightened out price relations in accordance with the requirements of objective economic law, closely centering around the key link of invigorating enterprises and starting from industrial goods of the third category over which there was a highly centralized management system. By so doing, it has charted a path to carry out the price reform in the manner of gradually widening the scope and range of price increases, making gradual progress, and making breakthroughs tier by tier.

From the point of view of the content of the reform: 1. The city has decentralized the power to fix prices. One after another, it has decontrolled the prices of 1,111 kinds of small commodities, relaxed control over the prices of 375 industrial goods for daily use and 49 kinds of noncommodity charges, regarding which the shortage of supplies has gradually been eased, transferred downward the power to fix the prices of seasonal goods and industrial goods for daily use that are produced beyond the planned target, allowed the catering trade to fix its prices within the prescribed range of gross profit, and allowed the prices of all vegetables to be regulated by market mechanism. At present, the number of the commodities of which the prices are fixed by the city has been reduced from 1,700 to 50.

2. The city has made flexible adaptations. It has allowed the prices of commodities and the noncommodity charges that are under the control of the city to float and has continuously increased the variety of these commodities and expanded the scope of the floating. It has implemented the policy of fixing preferential prices for products of fine quality and low prices for products of low quality, relaxed control over the transference prices in intermediate links and the prices of materials and goods outside the state plan, and, under the precondition of ensuring that there is no increase in the retail prices of pork and fresh eggs, implemented the policy of retail shops establishing ties with purchase centers to purchase pork and fresh eggs at listed prices.

3. The city has conducted price readjustment. In addition to the readjustment of the prices of steel, cement, fertilizer, and other products in accordance with the state unified arrangement, the city has also conducted readjustment of the prices of 49 kinds of commodities, including reclaimed iron, coal produced by small mines, iron pots, and lean meat, the prices of which seriously deviated from their value.

Since it adopted these methods, there has been no fluctuation of prices in the market and a fine situation has emerged in which the variety of small commodities has sharply increased and the price levels have dropped while being stabilized. According to a price survey of 516 kinds of small food commodities, articles of daily use, knitted textile goods, and various cultural goods that are dealt in by the Second Commercial Bureau, the combined cooperative of the city [shilianshe 1579 5114 4357], and the People's Department Store, the prices of 49 of these kinds of goods have risen, those of 54 have dropped, and those of the others have been steady. The increased proceeds due to the price increases amounted to 165,000 yuan, and the decreased proceeds due to the price decreases amounted to 221,000 yuan, 56,000 yuan more than the increases. The prices of some of the agricultural products that are purchased and sold at negotiated prices have already become steady. Increases due to floating price increases and decreases due to price decreases of the commodities with floating prices are roughly the same. The prices of some products of well-known brands and fine quality, commodities in short supply, and some foodstuffs have to some extent increased, but the shortage of supplies has greatly eased.

Judging by the methods of the reform, the city has based its actions on the principle of doing the work conscientiously, actively, carefully, and prudently. It first selected the industrial products of category three, which have relatively small involvement and impact, for making initial experiments in price reform, adopted the method of "carrying out the price reform in the manner of gradually widening the scope and range of price increases, making gradual progress and making breakthroughs tier by tier," and thus smoothly carried out the initial price reform.

At the beginning of last year, the implementation of the contracted responsibility system in most of our enterprises vigorously pounded out the old price management system. Our failure to reform this price management system, which is characterized by excessive centralized, strict, and rigid control, will inevitably affect the development of the reform in our enterprises. Therefore, our city first transferred to the enterprises all the power over the pricing of some industrial products of the third category, including small articles of daily use, small cultural goods, small hardware, small knitted textile goods, and small farm tools that do not have much bearing on the national economy. At the same time, it selected garments and enamel products to make experiments in floating prices. After thus transferring downward the power over pricing and increasing the vitality of the enterprises, our city transferred downward the power over the pricing of 100 commodities and noncommodity charges formerly controlled by the city, increased the variety of the products with floating prices, expanded the scope of floating prices, and relaxed the control over all the transference prices in the intermediate links.

On this basis, in order to further enliven our production and circulation of goods and in order to enable our pricing policy to continuously give the "green light" to the development of our enterprises, we also allowed the prices of all the industrial goods for daily use under the city's control to float. These goods include shoes and hats, aluminum products, and thermos flasks. After obtaining approval from the relevant provincial departments, we have also implemented floating prices for 90 kinds of commodities, including cotton prints, roll films, radios, bicycles of nonfamous brands, color television, tractors, optical instruments, cement produced by small factories, and so on, for which the prices are fixed by the province. By so doing, we have expanded the scope of floating prices from the category of industrial goods for daily use to the category of means of production. For the products the prices of which are fixed by the state, we have implemented the policy of fixing prices according to quality and the policy of fixing preferential prices for bulk purchase.

The initial reform of the price system in Shijiazhuang City has alleviated the irrational situation in the price system and has promoted the production and consumption of its products. As a result, a benign cycle has emerged, in which the all-round contracted responsibility system in the city urges our enterprises to reform, the reform of our enterprises initiates price reforms, and the price reform further invigorates our enterprises.

1. Our enterprises have gained vitality in their production. Since our city adopted the measures of giving priority to decontrolling prices and integrating decontrol with readjustment of prices to reform the price system, our enterprises have certain power to fix the prices of their products and are provided with the conditions to directly organize and manage their production in accordance with the law of value. Thus our city has imbued its enterprises with vitality. When it implemented the practice of fixing prices in an all-round manner in the past, the Xinhua lady garment factory stockpiled a large amount of products and was in financial difficulty because of high prices. This seriously influenced the development of its production. Since prices were allowed to float, the authorities of the factory have reduced the prices of a large number of varieties of products by 10 percent. Its products have quickly become very marketable instead of being stockpiled and the profits of the enterprise have increased quite a lot.

2. The circulation channels for products have become unobstructed. After the relaxing of control over the transference prices in circulation links, our enterprises have flexibly controlled the ex-factory price, supply price, and wholesale price of their products and have reduced the number of circulation links. For our market, we have implemented diversified forms of prices, including listed prices, negotiated prices, floating prices, industrial and commercial negotiated prices, free prices, and so forth, and broken the old system of monopoly, unitary channels, and rigid management in the circulation of commodities. As a result, there has emerged a new situation of the state, the collective, and the individual doing business together and competing with each other. In the past, we relied on our administrative means alone to increase our commercial networks. As a result, we made slow progress with great efforts. In 1982, we only established 200 setups; in 1983, we established 500 setups; and in 1984, because of applying the price lever, the construction of our commercial networks developed rapidly and we established more than 1,000 new setups

in a year. The result is not only convenient to the livelihood of the masses, but also cuts down the investment by the state.

3. The prices in the market have been stabilized. While reforming our price system, we prevented a big fluctuation of the prices in the market because we acted positively and cautiously. First, we have basically stabilized the general level of the prices of consumer goods of daily use which are closely related to the livelihood of our people. According to the investigation into 376 kinds of clothing that are dealt in by the people's department store of the city, after implementing floating prices for all its commodities, the prices of 176 kinds of commodities floated upward and the prices of 200 kinds of commodities floated downward. The increase in income caused by the floating up of prices offset the decrease caused by the floating down of the prices of commodities, and caused the department store to increase its profits by 1,000 yuan, but its business has been enlivened. The level of sales increased by 19.4 percent compared with that of the same period last year and the profits of the department store increased by 16.9 percent. The marketable rate of clothing has also been raised from 70 percent to 90 percent and the masses are pleased because they can buy seasonable and satisfactory clothing. Second, the general level of the prices of vegetables in the market has dropped while being stabilized. After relaxing control over the prices of vegetables, during the peak period, the prices of some principle varieties of vegetable, such as tomatoes, cauliflowers, kidney beans, and so forth, are lower than the state's listed prices. The prices of Chinese cabbages which are stored in the winter are basically equal to those of former years, but the proportion of waste on a cabbage has been greatly reduced. While conducting the price reform, Shijiazhuang City has particularly strengthened its supervision over and its inspection of the prices in the market, and has solemnly inspected and dealt with the various problems which run counter to the pricing policy. It has safeguarded the interests of the state and the vast number of consumers and has conscientiously done a good job of enlivening and management.

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FINANCE AND BANKING

TAX ON OUTGOING REMITTANCE OF PROFITS JUSTIFIED

Beijing ZHONGGUO SHUIWU [CHINA'S REVENUE] in Chinese No 4, 12 Apr 85 pp 36-37

[Article by Hui Wen [0656 2429]: "Why Is It Necessary To Tax the Outgoing Remittance of Profits by Foreign Participants in Joint Ventures?"]

[Text] Article 4 of the "Income Tax Law Concerning Joint Ventures with Chinese and Foreign Investment" stipulates that "In the case of a foreign participant in a joint venture remitting its share of profits from China, an income tax of 10 percent shall be levied on the remitted amount." Some people are not quite clear about the meaning and effects of this stipulation, and believe that it may be easily misinterpreted as a "double remittance rate" (meaning an additional remittance fee) or a restraint on foreign traders from sending away their profits and thus a hindrance to the absorption of foreign funds and to the direct investment in China by foreign traders. Some people have even raised the question as to whether it is reasonable that, according to the Income Tax Law Concerning Foreign Enterprises, the profits of foreign traders earned from joint business operations or from enterprises with exclusive foreign capital need not be taxed when they are remitted out of the country, and only the outgoing remittance of profits earned from joint ventures are taxable. All these doubts are mainly due to an inadequate understanding of the usual methods and practice of international taxation.

First, the levy of tax on the outgoing remittance of profits of a foreign participant in a joint venture is based on the principle regarding the source of income and the customary international practice of withholding income tax on dividends and bonuses. The taxpayer in this case is the foreign participant in a joint venture and not the joint venture itself. In other words, it is a tax on the income of the foreign investor (that is the partner) from his dividends or bonuses earned in China. In most countries, dividends in taxation generally refers to the income from stock shares that has no credit right relations. According to the statistics of 78 countries and regions, there are 72 taxable items including dividends, bonuses, interests and royalties. As a sovereign state, China has the right to levy taxes and to determine the interpretation of dividends in the same way usually used in international taxation. The joint ventures using Chinese and foreign investment in China and formed according to the applicable law by two or more investors or shareholders have the status of Chinese legal entities. The profits are distributed as dividends and bonuses in proportion to the share-holders' investment.

In most of the 78 countries and regions (including England, Japan, Thailand and Canada), taxes have to be withheld on the dividends and bonuses regardless whether such income is remitted out of the country or not, and the tax rate is generally about 20 percent. China levies tax only on that portion of the foreign participant's profits that is remitted from China at the rate of 10 percent, while the other portion not remitted is not taxed at all. If the unremitted portion is used in reinvestment, 40 percent of the income tax already paid would be refunded. All this shows that in our tax law, we have fully considered the grant of preferential tax for foreign investors.

Second, the reason why we levy tax on the remitted profits of a foreign participant in a joint venture, but not on those of a foreign trader engaged in joint business operations or in independent business operation in China is that their legal entities are different. Joint ventures are Chinese legal entities, also called "juridical residents" in taxation. Their income earned in and out of China has to be taxed in China, since the profits distributed come under the category of dividends and bonuses distributed to partners in China. The joint business operation with Chinese enterprises, on the other hand, is a form of indentured cooperation, since the rights and responsibilities of two or more parties stipulated in a contract will be terminated upon the contract's expiration. The foreign trader, like his enterprise engaged in independent operation in China, does not have the status of a Chinese legal entity and has to pay tax in China as long as his income is earned in China. His profits realized in China are the business profits of the branch and the agents of the head office, and do not come under the category of distributed dividends or bonuses. Some countries withhold taxes even on this type of profits on the ground that even though these profits were remitted to the head office instead of being directly [locally] distributed as dividends and bonuses, the head office will ultimately use the remitted profits as dividends and bonuses to be distributed among the partners. That is why all income to be taxed at the head office level is taxed at its source. However, the majority of countries do not levy such tax. As for the branch offices, reciprocal agreements between countries to avoid double taxation generally contain specific clauses providing that regardless of the location of dividend or bonus distribution, no withholding tax can be levied in the country from which the income is obtained. It is precisely in consideration of this international practice that our tax law contains the stipulation that branch office income is not subject to tax.

Third, in taxing the remitted profits which belong to the share of foreign participants in a joint venture, we are only protecting our national interests and meeting the requirements of the tax relations among nations in an equitable way. It is for the same reason that our tax agreements for avoiding double taxation, signed with Japan, the United States and England, contain specific clauses on indirect tax credits. Normally, the income obtained from investment outside the country may qualify for credit only if it represents dividends and bonuses. However, if indirect tax credit is granted, it also follows that a credit can result from the tax on the enterprise's income intended for the payment of dividends and bonuses. For example, the foreign participant in a joint venture has remitted out 67 yuan of profits and paid 6.7 yuan at a 10 percent rate. If indirect credit is obtained, then, in addition to the 6.7 yuan of withholding tax, the amount of tax paid on the original profit (100 yuan) at the rate of 33 percent (including local income) can also be combined to make a total credit of 39.7 yuan. If it is not

stipulated that the remitted profits of foreign participants in joint ventures are taxable, then there will be no withholding tax on dividends and bonuses, and the matter of tax credit would be moot in our negotiations with foreign countries. This would make it difficult for us to protect our national rights in accordance with international taxation practice. There is also the related impact on "concession credit [rao rang di mian [7437 6245 2107 0341]]." The agreements to avoid double taxation signed with Japan, France and some other countries all contain a list of items qualifying for reduced taxes or exemptions. In our arrangements with Japan and France (involving what is usually referred to as "concession credit"), provisions exist for recognizing the income taxes paid to China as qualifying for foreign tax credit. Recognition is also given to China's differential tax rate structure for joint ventures versus foreign enterprise: Under "Income Tax Law Concerning Joint Ventures with Chinese and Foreign Investment," the foreign participant in a joint venture remitting its share of profits from China is subject to a 10 percent tax on the remitted amount; under the "Income Tax Law Concerning Foreign Enterprises," the rate of withholding tax on dividends is 20 percent. If it is not clearly stipulated that tax has to be levied on the remitted profits of the foreign participants in a joint venture, there would basically be no way to request the other countries to grant credit for the reduction and exemption of dividend tax. From this, we can see that if we want to understand thoroughly the important significance and effects of each measure of taxation, we must carefully study the various complex relations involved in international taxation. Only thus can we more fruitfully learn from the international taxation experiences and use them to protect our national rights.

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CSO: 4006/618

FINANCE AND BANKING

PROPER IMPLEMENTATION OF TAX POLICY FOR FOREIGN BUSINESS

Beijing ZHONGGUO SHUIWU [CHINA'S REVENUE] in Chinese No 4, 12 Apr 85 p 7

[Article by Lin Rongsheng [2651 2834 3932]: "Proper Implementation of Tax Policy for Foreign Business]

[Text] Along with the continued development of productive forces and the continued progress of science and technology, international economic relations are also continuing their growth. The trend of modern economic development is toward the promotion and strengthening of economic construction in the country by opening it to the outside world and by developing international contacts. To attain the grand objective of quadrupling the gross value of our industrial and agricultural output by the turn of the century, we must understand that opening the country to the outside world is an important policy decision for economic development in the new historic period as well as a long-term basic policy of our country. Our tax policy and our work of levying taxes must serve this national policy.

Not long ago, the State Council promulgated the "Provisional Regulations Concerning Reduction and Exemption of Enterprise Income Tax and Unified Industry-Commerce Tax in Special Economic Zones and the 14 Coastal Cities" (hereinafter abbreviated as "Provisional Regulations"). This is another important tax law concerning foreigners, after the "Income Tax Law Concerning Joint Ventures with Chinese and Foreign Investment," the "Individual Income Tax Law," and the "Income Tax Law Concerning Foreign Enterprises." An important task for our tax department at present is to study the "Provisional Regulations" carefully and to publicize these regulations as well as the tax principles and policies concerning foreigners so that the "Provisional Regulations" can be properly implemented.

In line with our tax policy, the "Provisional Regulations" provide preferential treatment to the foreign businesses that have their investment in the interiors. There are also different preferential taxes for different levels and trades in the special economic zones and open cities, according to the policy. The tax is lighter for the traders in the special economic zones than for those in the open cities. For those in the open cities, however, the tax is lighter than for those engaged in economic and technical development of the old cities. This policy fully embodies the principle of treating each case on its merits. To meet the new situation of economic development in the open

coastal cities and to give full play to the role of tax as an economic lever, the "Provisional Regulations" specifically provides a 15 percent tax reduction for the production enterprises in the special economic zones and the developing zones. This will create even better conditions for importing advanced foreign technology and will play a positive role in accelerating the technical transformation of our old enterprises, opening new fields of technology and improving our enterprises' economic results. We must understand and observe this policy and principle and implement the "Provisional Regulations" properly. Our contacts with foreign countries have become more frequent following the implementation of our open-door policy. At present, we have formally signed tax agreements with Japan, England, the United States and France and initialed an agreement with Belgium. The Sino-Japanese and Sino-British tax agreements will become effective this year. Joint Chinese-foreign ventures and cooperative enterprises are now increasing in number. According to statistics, at the end of 1984, China already had 2,980 enterprises operated as joint Chinese-foreign ventures, on a cooperative basis, or with exclusive foreign capital. At present, our economic conditions are continuing to improve and the work of taxation concerning foreigners is in the stage of development and consolidation. To promote economic and technical cooperation with foreign countries and to bring in more foreign funds to accelerate our economic construction and development, it is essential that all localities should provide more active leadership over the work of taxation concerning foreigners and conduct a tax-policy examination on the basis of in-depth investigations and study. The scope of examination should include the regulations formulated by the localities that are inconsistent with the present tax law. Such an examination will help in the proper implementation of the tax policy on foreign business, the correction of mistakes, and the preservation of national interests. Since the "Provisional Regulations" provide for some many types of tax reductions and exemptions, or preferential treatment, the tax rates are different between the special economic zones and the nonspecial economic zones, foreign-capital enterprises and nonforeign-capital enterprises; and between the imported products and the locally produced and locally marked products on the one hand and the products sold on the domestic market on the other. Furthermore, because the sources of withholding tax and individual income tax are widely spread out and always in motion, the least relaxation may result in errors, and the work of taxation is difficult. Therefore, an important measure to implement the open-door policy properly is to set up and perfect as soon as possible a set of rules and regulations of tax administration that are suitable for the special characteristics of taxes for foreign business.

The establishment of tax organs and training tax cadres in dealing with foreign business, and a closer cooperation among the departments concerned are the requirements of the state's open-door policy as well as an organizational guarantee for strengthening tax administration and increasing tax revenue. All localities must quickly train a contingent of foreign tax cadres who must have high political consciousness, good workstyles, a keen sense of discipline, and particularly high ideals in meeting the demands of the new situation and in serving the party and the state in the implementation of the open-door policy.

## FINANCE AND BANKING

### TAX TERM 'INCOME FROM CHINA' EXPLAINED

Beijing ZHONGGUO SHUIWU [CHINA'S REVENUE] in Chinese No 4, 12 Apr 85 pp 37-38

[Article by Jiang Li [1203 5461]: "How To Understand the Meaning of 'Income from China'"]

[Text] Article 1 of the "Individual Income Tax Law of the PRC" states: "...For individuals not residing in the PRC or individuals residing in China less than 1 year, individual income tax shall be levied only on that income gained within China." Since the opening of China to the outside world, many foreigners have been invited to offer technical services in China. If they stay longer than a certain specified period, they have to pay individual income tax according to the tax law. However, some foreigners have stayed over the specified period and have not received any direct salary from us, since they are paid by their own employers in their own countries. In this case, they should still pay their individual income tax in China. Many comrades fail to understand this regulation. They feel that since these foreigners are paid by their employers in their own country, their salaries do not come from China. Some comrades even believe that the levy of individual income tax in this case would be unfair, because these foreigners are rendering their services for free. To clarify this question, we must understand the meaning of "income from China." This term has a dual meaning: first, the salaries or wages paid by China; and second, salaries or wages paid by the employers in their own countries for services rendered in China. In both cases, the income originates from China. The reason for this is that every foreigner working in China like everywhere, must be creating certain value, and salaries or wages are only part of the monetary expression of this value. These salaries or wages can be paid either by China in China, or by others outside China. In any case, this portion of value has been created inside China, and the income from it is considered as originating from China. In other words, income from China refers to the income received inside China regardless of where it is paid and who pays them. The place of origin and the location or the person who pays it are different concepts. The criterion for our judgement on the levy of individual income tax is whether or not the income originates from inside China, but not the place the income is paid or the person who pays it. This is the jurisdiction over the origin of income we

so often heard of in international taxation. According to this principle, China has the priority of levying tax on income from China.

Furthermore, according to international taxation practice, the taxes paid by foreign traders in China can be used as credit in their own country. On the other hand, if we do not levy tax on the foreigners' income from China, they still have to pay to their own government the taxes due upon their return. This will mean an outflow of our economic interests.

From this, we can see that it is within our rights to tax income from China and that we should exercise this right effectively in protecting our national economic interests.

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CSO: 4006/618

FINANCE AND BANKING

BRIEFS

JIANGSU FILM REVENUES--Jaingsu Province earned a total revenue of 40.7 million yuan from 2.1 million film shows last year. [Summary] [Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 18 Apr 85 OW]

JIANGSU BANK DEPOSITS--According to statistics compiled by the Jaingsu Provincial Branch of the People's Bank of China, a record amount of currency was withdrawn from circulation in the province in March, which more than recovered the excessive amount of currency pumped into the market in February. Meanwhile, bank deposits in both the urban and rural areas increased by a large margin. By the end of March, the province's total bank deposit reached an all-time high of 8.37 billion yuan. [Summary] [Nanjing Jiangsu Provincial Service in Mandarin 2300 GMT 17 Apr 85 OW]

HUNAN SELLS NEW HOUSES--According to statistics published on 5 May, over the past year Changsha, Hengyang, Zhuzhou, Jingshi, and Chenzhou cities have sold some 520 flats, with a total floor area of 25,000 square meters. They have thus received some 2.41 million yuan, which was paid by individual purchasers. [Summary] [Changsha Hunan Provincial Service in Mandarin 2300 GMT 29 May 85 HK]

DISCOUNT TREASURY BONDS REGULATIONS ISSUED--Beijing, 7 June (XINHUA)--The People's Bank of China recently issued the "Regulations for Discount of 1983 National Treasury Bonds." According to the "regulations," the scope of discount is limited to the national treasury bonds purchased by individuals in 1985. Those who have purchased national treasury bonds may discount them after 2 years at a monthly discount rate of 12.93 per 1,000. For example, the principal and interest of a 100 yuan treasury bond should be 145 yuan at the end of 5 years. According to the discount rate, the bank is to collect discount interest of 1.875 yuan per month for the advance payment of the bond. Hence, the discount for a 100 yuan bond is only 77.5 yuan at the end of 2 years and 100 yuan at the end of 3 years. It has been reported that the regulations for discount of this year's national treasury bonds have been formulated on the basis of relevant articles in the "Regulations of the People's Republic of China Concerning the 1985 National Treasury Bonds." The purpose of the regulations is to enable bondholders to transfer their treasury bonds to the bank in case of financial difficulty. According to regulations, the bank will handle the discount of the 1985 national treasury bonds from 1 July 1987 to 30 June 1990. The Industrial and Commercial Bank, the Agricultural Bank, and the People's Bank of China in various localities will designate their branches to handle the discount in accordance with actual needs. When applying for a discount, a bondholder must bring along a work certificate and a relevant identification document. [Text] [Beijing XINHUA Domestic Service in Chinese 0156 GMT 7 Jun 85 OW]

BANK JOINS INTERNATIONAL SAVINGS INSTITUTE--Beijing, 4 Jun (XINHUA)--The Industrial and Commercial Bank of China (ICBC) is joining the International Savings Banks Institute (ISBI) to expand its ties with the outside world, an ICBC official said today. A four-member delegation, led by Liu Yansun, director of the bank's deposits department, was leaving Beijing for Geneva tonight to attend the 24th general assembly of the ISBI, at which the Chinese bank's membership is expected to be formally approved. The Geneva-based ISBI is a non-governmental, non-commercial international organization. At present, it has 115 member banks in 73 countries, to whom it provides consultancy and training services, and helps organize information and business exchanges. The ICBC specializes in industrial and commercial credit and urban and rural savings deposits. [Text] [Beijing XINHUA in English 1140 GMT 4 Jun 85 OW]

CSO: 4020/247

9 July 1985

## INDUSTRY

## BRIEFS

SHANGHAI LIGHT INDUSTRY--Shanghai's light industrial output value amounted to 11 billion yuan in the first quarter of 1985. [Summary] [Beijing Domestic Service in Mandarin 1200 GMT 6 Apr 85 OW]

SHANGHAI OUTPUT VALUE--According to the Shanghai Municipal Statistics Bureau, the city's total industrial output value in the first quarter of this year was 19.66 billion yuan, 2 billion yuan, or 11.3 percent over the same period last year. In March alone, its industrial output value surpassed 7 billion yuan, hitting an all-time high for that month. [Summary] [Shanghai City Service in Mandarin 0100 GMT 3 Apr 85 OW]

FUJIAN INDUSTRIAL PRODUCTION--Fujian's industrial output value for the first quarter of this year amounted to 3,472,000 yuan, showing a 36.7 percent rise over the same period last year. Total profits and tax payments made by state-owned industrial enterprises in the province rose by 39.2 percent compared with last year's corresponding period. [Summary] [Fuzhou Fujian Provincial Service in Mandarin 1130 GMT 10 Apr 85 OW]

CSO: 4006/652

9 July 1985

## CONSTRUCTION

## LIAONING: GUO FENG AT CEREMONY FOR CHANNEL RECONSTRUCTION

SK070447 Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 6 Jun 85

[Excerpts] With red flags fluttering and gongs and drums deafeningly sounding on both sides of (Weigongming) Channel of Shenyang's Tiexi District, the people from all circles of Shenyang City exploded firecrackers and jubilantly celebrated the opening of the reconstruction of the (Weigongming) Channel Project to be undertaken cooperatively by army men and civilians.

Located at the western part of Shenyang's Tiexi District, the channel is the principal drainage of sewage water and rainwater in the western part of Shenyang. It is 7.1 km long. The daily sewage water drainage of Shenyang City's (Huangou), (Dadong), and (Hiping) districts ranges from 400,000 to 600,000 tons. The figure amounts to a half of the total water usage in Shenyang City. The channel should also drain off the rainwater covering over 40 square km of areas in Tiexi District during rainfalls. The channel was constructed at the beginning of the 1940's.

On 26 April this year, the third session of the ninth Shenyang City People's Congress adopted a resolution on mobilizing the people of the city to reconstruct (Weigongming) Channel.

At 9 o'clock on the morning of 6 Jun, a ceremony for starting the reconstruction project was held at the workers' cultural palace of Shenyang City. Attending the ceremony were leading comrades of Liaoning Province, the Shenyang PLA Units, and Shenyang City, including Guo Feng, Gao Ke, Li Tao, Li Changchun, Liu Zhenghao, and Peng Xiangsong. Also attending the ceremony were over 1,500 people, including the people of all circles of Shenyang City and soldiers stationed in Shenyang. After the ceremony, leading comrades of the party, government, and army of Liaoning Province, Shenyang City, and the Shenyang PLA Units came to the construction site. Cutting the ceremonial ribbon were Guo Feng, first secretary of the provincial CPC Committee; Gao Ke, deputy commander of the Shenyang Military Region; and Li Changchun, secretary of the Shenyang City CPC Committee.

CSO: 4006/703

## CONSTRUCTION

### RESUMED CONSTRUCTION OF STEEL PLANT APPROVED

HK250205 Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 25 May 85

[Excerpts] According to SICHUAN RIBAO, in order to improve the deficiencies in China's iron and steel industry and exploit the vanadium and titanium iron deposits in western Sichuan, the state recently formally approved the resumption of the construction of the second stage of Panzhihua Iron and Steel Company. This policy decision will have a major impact on stimulating economic construction in the southwest, and is a big affair in the history of the metallurgical industry in Sichuan.

Panzhihua is a large iron and steel combine constructed in the early 1970's by relying on the country's own resources. It is the first production and research base for exploiting and using the vanadium and titanium iron resources of western Sichuan. The first stage of the project was basically completed and put into production in 1974, producing 1.7 million tons of iron and 1.5 million tons of steel a year.

When inspecting work in Sichuan in 1983, Premier Zhao Ziyang delivered important instructions on speeding up the construction of Panzhihua. In the past year, under the leadership and with the support of the Ministry of Metallurgical Industry, Sichuan Province, and Dukou City, a series of urgent preparations have been undertaken for speeding up and resuming construction of the second stage of the plant. A great deal of technical material has been collected and put in order on the basis of thorough investigation and study, to provide a scientific basis for making a success of the design. [passage omitted]

At the end of April, nearly 100 personnel from design institutes concerned assembled at the plant to launch initial design studies. At the same time the plant has stepped up external technological exchanges by sending experts to foreign countries to conduct investigations and make preparations for importing advanced foreign technology and equipment for the second stage. [passage omitted] Conditions have been created for starting the construction work in the second half of this year.

The second stage of the project includes three main items, the No 4 blast furnace, a foundry, and a hot-rolling mill, together with corresponding ancillary and civil installations. The total investment is expected to be about 3 billion yuan, 2.1 billion of which will be spent during the Seventh 5-Year Plan.

CONSTRUCTION

BRIEFS

ZHEJIANG ISLAND CONSTRUCTION--A regiment under the Zhejiang Provincial Military District stationed on Dachendao has provided manpower, material, financial, and technical support to local construction. In 1984 the regiment supported the island in fulfilling 21 key construction projects. This year it will continue with the island's 17 key projects related to energy development, processing of aquatic products, and comprehensive utilization of low-quality fish, and others. On 10 April, the regiment dispatched 153 cadres and fighters to help lay a submarine cable for Dachendao, thereby ensuring the smooth completion of the project. A company under the regiment they also solved technical difficulties involved in obtaining hydrological data for the construction of a tidal wave power station. [Excerpts] [Hangzhou Zhejiang Provincial Service in Mandarin 0400 GMT 29 Apr 85 OW]

URBAN PLANNING STRESSED--Provincial CPC Committee Secretary Li Ziqi pointed out after inspecting the improvements to the old city of Tianshui on 24 May: It is necessary to have an overall plan for urban construction and carry it out in stages. We must mobilize the forces in society to make a success of this work. Tianshui is a key pilot project city in reform of the economic structure in Gansu and is also a famous old cultural center. To improve the old city, Tianshui is carrying out modifications in a planned and measured way, focusing on key points. [passage omitted] Comrade Li Ziqi said: It is necessary to solve problems in a comprehensive way in urban construction, first widening the roads, and also making rational arrangements for water supply, sewage, and service networks and points, so as to urbanize residents' housing. [passage omitted] Comrade Li Ziqi was accompanied by Vice Governor Hou Zongbin and responsible persons concerned of the Provincial CPC Committee and government and Tianshui Prefecture and city. [Excerpts] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 25 May 85 HK]

CSO: 4006/654

DOMESTIC TRADE

BRIEFS

JIANGSU COMMODITY SALES--Retail commodity sales in Jiangsu during the first 3 months of 1985 rose 28.5 percent over the same period of 1984. Business was particularly brisk in durable items and electric appliances such as refrigerators, audio recorders, electric fans, washing machines, television sets, and others. [Summary] [Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 18 Apr 85 OW]

SICHUAN NATIONAL ECONOMIC COOPERATION FAIR--According to (XINXI BAO), the State Council has decided to hold an economic cooperation fair for 15 coastal and inland provinces, cities, special economic zones, and open-door cities in Chengdu this autumn. Proceeding from the requirements of strategic development, the State Council has decided to strengthen horizontal economic contacts. It has organized economic cooperation negotiations between the coastal and inland areas. The provinces and cities concerned have attached great importance to this matter. In connection with their local advantages, they have made preparations for items for negotiation. The participants of the fair will include Guangdong, Fujian, Zhejiang, Jiangsu, Shanghai and Tianjin of the coastal areas; and Sichuan, Yunnan, Guizhou, Hunan, Hubei, Henan, Shaanxi, Gansu and Chongqing from the inland area. The fair will hold a preparatory meeting in early June in Chengdu, and it will formally open in August. The provincial planning committee, economic committee, office for the third line, office for cooperation, and other departments concerned have already worked out [words indistinct] items of economic cooperation for negotiations with the participating provinces and cities. [Text] [Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 31 May 85 HK]

CSO: 4006/677

FOREIGN TRADE AND INVESTMENT

ZHAO ON PRC ECONOMIC REFORM, OPEN-DOOR POLICY

OW102210 Beijing XINHUA Domestic Service in Chinese 1612 GMT 10 Jun 85

[Text] Bonn, 10 June (XINHUA)--Addressing the Oriental Committee of the Economic Circle of the Congress of Industry and Commerce of the FRG today, Chinese Premier Zhao Ziyang elaborated on China's economic construction, the progress of the reform of its economic structure, and its open-door policy.

Premier Zhao said: "The main purposes of my current visit to your country are to further promote Sino-German friendship, strengthen our economic and technical cooperation, and discuss with you ways and means to safeguard world peace."

Premier Zhao pointed out: Since 1979, tremendous and profound changes have taken place in China's economy. Gradual as it is, this process of change has yielded marked results. China's GNP has grown at an average annual rate of 8.2 percent for 6 consecutive years. During these 6 years, the average annual growth rates of agriculture, light industry, and heavy industry were respectively 9.4, 11.7 and 6.6 percent, and 51 million people in cities were given jobs. Allowing for changes of commodity prices, the net per capita income of people living in rural areas has increased by more than 100 percent, and the per capita consuming power of people in cities has increased 60 percent. This is the last year of China's Sixth 5-Year Plan, and it is certain that this plan will be greatly overfulfilled.

Premier Zhao said: "The development in China's economy is interwoven with the process of the reform of its economic structure. Reform has promoted a sustained, steady, and coordinated economic growth, which in turn has created more favorable conditions for reform." He pointed out: The restructuring of China's economic setup started first in the rural areas, and now the focus has switched to the urban areas. We started restructuring the economy by giving our enterprises ample visibility. China's socialist economy is a planned commodity economy on the basis of public ownership of the means of production. We are taking active steps to develop the market for consumer goods and the means of production, and will gradually open up technical, labor services, and financial markets. Following the gradual reduction of mandatory plans and the gradual increase of guidance plans, indirect control by the state will also replace direct control in administration of enterprises. Prices, interest rates, tax rates, and exchange rates will become major leverages for regulating the macro-economy. These are the main points of China's current economic reform. He

said: "Our objective is clear, our attitude is firm, and the measures we are taking are prudent. We shall watch every step we take, go about things steadily and surely, and strive for success. It is expected that, in 5 years or more, China's socialist economic setup will generally change from its old model to a new one, which will give a strong impetus to economic rejuvenation."

Premier Zhao then briefed his audience on China's policy of opening to the outside world. He said: This is a fundamental state policy and an important part of our reform. We are actively expanding our foreign trade; pursuing preferential policies in matters of introducing foreign capital, technology, and equipment; and inviting foreign specialists in order to create a favorable environment for investment and ensure reasonable profits for our foreign partners. China opened 4 special economic zones in Guangdong and Fujian Provinces in 1980, and opened 14 coastal cities, including Shanghai, Tianjin, Dalian, Qingdao, and Guangzhou as well as Hainan Island last year. Not long ago, the nation again decided to open to the outside world the Changjiang Delta, the Zhujiang Delta, and the triangular belt in southern Fujian. Now the population of the areas opened to the outside world exceeds 100 million. China's total import-export trade in 1984 approached \$50 billion. Although the amount was not great, the development was quick. The average annual growth rate during the past 6 years was 22.5 percent. There are now over 900 Sino-foreign joint ventures. China has established economic and technical cooperation relationships with 174 countries and regions. More doors in China are being opened to the outside world, and these doors have been opened wider and wider.

Premier Zhao pointed out: Over a fairly long period in the future, China's economic construction will focus on the development of energy, communications, telecommunications, electronics industry, and raw and semifinished materials, and will systematically transform the technology of over 400,000 enterprises. There is a wide range of areas for economic and technological cooperation between China and West European countries. China is ready to carry out long-term cooperation with Western Europe in expanding two-way trade, introducing foreign technology and equipment, making use of foreign funds, seeking consulting services, training technicians and managerial personnel, and so on. We are ready to gradually enlarge the West European countries' share in China's foreign trade and see to it that cooperation between us will develop steadily. He said: We hope that European countries will be more competitive in the prices of their products, more liberal in technology transfer, and offer more favorable terms of payment. He added: We also hope West European countries will facilitate the import of Chinese commodities.

In conclusion, Premier Zhao expressed satisfaction with the smooth development of relations between China and the FRG, and particularly the steady growth of economic and technological cooperation. He also thanked the FRG's economic circle for its willingness to train 150 students and graduate students. Premier Zhao hoped that the friendly relations and cooperation of the two countries would be brought to a new high.

FOREIGN TRADE AND INVESTMENT

DOUBLE TAXATION AGREEMENT WITH FRG NEARS RATIFICATION

Duesseldorf HANDELSBLATT in German 23 Apr 85 p 6

[Article by Dr Hans Flick, Federation of Chambers of German Industry and Commerce (DIHT): "After Lengthy Negotiations, A Solid Basis For Trade With China"]

[Text] On 30 March in Beijing, a government delegation from each of the FRG and the PRC finalized the text to an agreement for preventing double taxation of income and property.

The main provisions of the agreement fulfilled all demands German companies operating abroad require in a contract with a country such as China that is trying to upgrade its economy and foster development.

Lengthy negotiations were necessary to reach an agreement--six rounds in all. At the invitation of the FRG Treasury Department, a representative of the Federation of Chambers of German Industry and Commerce (DIHT) participated as an observer during the final negotiations. In my opinion, the negotiations were conducted with great care and readiness to negotiate.

In just a few years, the Chinese have assembled a capable negotiating team that has gained considerable experience by concluding several double-taxation agreements with other large industrialized nations (USA, Japan, France, Great Britain). The result is an optimal milieu for German-Chinese economic relations.

The German team was able to persuade the Chinese to keep their withholding taxes low. They are 10 percent respectively for dividends, licenses and interest in general. With regard to interest, the withholding tax--corresponding to the Chinese-French pact--is reduced to zero percent for federally guaranteed (export) credits. The Germans' countermove is to grant a fictitious tax credit of 15 percent for licenses and interest. For leasing contracts, the withholding tax is also 10 percent, but because it is applied to 70 percent of the leasing fee, it actually corresponds to a tax of seven percent.

Taxation for permanent establishments also corresponds basically to the definition of Article 5 of the OECD model agreement. In fact, the time limit for building sites and setting up for plant operation is 6 months. If the deadline is not met, the following costs associated with setting up the plant are included: costs for supervisory activities as well as hiring and consulting costs. Although the Germans would prefer to have this stipulation otherwise, they are still better off than with the possible alternative of taxation on the basis of the gross, on both of these activities in the framework of the article on licensing.

As for corporate taxes, it is particularly important--as the Germans have learned from experience with numerous countries when applying rules of conflict--that both sides stipulate in writing their legal understanding that the profit on a delivery not be taxed on the receiving country.

In contrast with other German agreements, other income is to be taxed in the country of origin. Since this also includes a means of taxing profits gained from the sale of subsidiaries, it would be well-advised for Germans to arrange Chinese investments in such a manner that the capital does not have to be reshuffled. This stipulation could also have a negative effect on what is attributed in the FRG to the official individual-asset value as determined by dividends.

#### Intercompany Privilege Even At 10 Percent

For German investments, the agreement provides intercompany privilege with respect to corporate, trade and capital taxes even at a 10 percent interest in another firm. Thus, the FRG particularly encourages investments in China and also fosters cooperative efforts in the form of legal entities.

There is also an exemption for permanent establishments and thus for cooperative efforts in the form of joint ventures.

The corollary provisions are typical in nature. According to the information clause, information for implementing the agreement is exchanged; the document also refers to the possibility in the German federal tax code of supplying extensive information to China on a unilateral basis.

The agreement, which is to be signed in June 1985 in Bonn during the state visit of the Chinese Prime Minister, is retroactive to 01 January 1985, except for the withholding taxes on licenses and interest. With regard to the latter, technical reasons would permit a reduction only for payments made after 30 June 1985.

In the final analysis, the lengthy negotiations appear to have been worthwhile for both nations and for the commerce involved.

FOREIGN TRADE AND INVESTMENT

ANHUI, AUSTRALIA SIGN ECONOMIC AGREEMENTS

OW041441 Hefei Anhui Provincial Service in Mandarin 1100 GMT 31 May 85

[Excerpts] At 0900 yesterday, Anhui and the Australian Economic and Trade Delegation held a grand signing ceremony at the (Daojianglou) guesthouse. Attending the ceremony were members of the Australian delegation; Vice Governor of Anhui Zhang Dawei; and leading members of the provincial planning commission, the economic commission, the foreign economic relations and trade commission, the committee for promoting foreign trade under the foreign affairs office, and the Hefei branch of the Bank of China.

Vice Governor Zhang Dawei and Vice Minister (Paul Beret) signed the summary of talks on economic and technical cooperation. Officials of both sides' business and trade circles signed four contracts for technology and equipment for transplanting embryos of dairy cattle, bread production, chicken raising, and processing of peanuts and cheese; and 13 resolutions, intentions, and memoranda.

After the signing ceremony, Vice Governor Zhang Dawei said: The signing ceremony today lasted over 40 minutes. This is unprecedented in Anhui. We have received delegations from many countries, but we have signed the greatest number of contracts and resolutions only with your delegation. This shows that the commercial talks between our Australian friends and Anhui were friendly and sincere. I want to take this opportunity to thank Mr Vice Minister and other Australian friends. We will continue to work hard to contribute to the development of cooperation between Anhui and Australia.

Vice Minister (Beret) said: Our visit to Anhui has been highly fruitful. The signing ceremony today is only a beginning of our bilateral cooperation. The scope of future cooperation will be wide, and the prospects are bright. Let me reiterate that after I return to Australia, I will propose to my government to further promote its cooperation with Anhui.

After the signing ceremony was over at 1000, the Australian vice minister attended a press conference.

CSO: 4006/677

FOREIGN TRADE AND INVESTMENT

XINHUA CITES HONG KONG JOURNAL ON HONG KONG-CHINA TRADE

HK050737 Beijing Hong Kong Service in Chinese 0904 GMT 4 Jun 85

[Handwritten XINHUA article]

[Text] 4 June, Hong Kong--Influenced by the Hong Kong economic slowdown and the flooding of "parallel goods" to the Hong Kong market, the total value of the Chinese mainland's exports to Hong Kong in the first quarter of this year experienced a reduction for the first time in the past decade. Hence, the mainland has been reduced to the status of having an adverse balance of trade with Hong Kong from having a favorable one.

An article carried in the latest issue of the weekly "Hong Kong Market" operated by the China Resources Group analyzed the trade between Hong Kong and the mainland.

The article says that in the first quarter of this year, Hong Kong's exports (including re-exports and Hong Kong-made exports) to the mainland continued to increase by a fairly big margin, rising by 133.9 percent against the past year's drastic increase of 113.8 percent to HK\$15.724 billion in terms of total value. Surpassing the United States, the mainland has become the largest market for Hong Kong's exports, thus playing a powerful, supportive role in promoting the continued expansion of Hong Kong trade.

However, the mainland's supplies to Hong Kong in the first quarter of this year showed a decrease instead of an increase, totaling HK\$12.094 billion in total value terms or a decrease of 3.4 percent compared with the same period of last year. Since 1982 the mainland's goods imported by Hong Kong have occupied the top position in all Hong Kong's imported goods but now the mainland has been reduced to second place after Japan in this regard. With regard to its trade with Hong Kong, the mainland had an adverse balance of HK\$3.63 billion while it had a favorable balance of HK\$5.802 billion in the corresponding period of last year.

The analysis shows that the reasons for the decrease in the mainland's exports to Hong Kong in the first quarter of this year are that first and foremost, the momentum of the Hong Kong economy, which increased by a fairly big margin last year, has slowed down as a whole since the beginning of this year, especially in the production and marketing of manufactured goods. This has stagnated the market demands for industrial raw materials and semi-finished products which serves as the bulk of Hong Kong's imports.

Next, during the past year large quantities of "parallel goods" imported to Hong Kong through unofficial channels without documentation have flooded the market and moreover, the absorptive capacity of the Hong Kong market is limited. Consequently, the supply of some products exceeded demand and they had to be stockpiled, resulting in a fall in their prices. For example, the amount of food exported by the mainland to Hong Kong in the first quarter of this year dropped by 14.8 percent in money value terms, half of which resulted from the fall in their prices.

Again, the growth momentum of China-made commodities re-exported through Hong Kong has also slowed down. This was also attributable to the mainland's failure to make up the losses resulting from the decrease in the demand for its commodities originally marketed in Hong Kong. Because of the American economic slowdown, there was a drastic fall in the demand for China-made commodities re-exported by Hong Kong to the United States. The increased amount of such re-exported commodities to the United States was only 19.6 percent as against 91.4 percent in the first quarter of last year. The resales of China-made commodities to the Southeast Asian and Middle East markets was also unsatisfactory. In addition, the slowdown in re-exported goods was also connected, to a certain extent, with the direct sales by the mainland of some commodities to the overseas markets.

Finally, although the mainland has made some achievements in raising the quality of its products and packaging and improving its transport conditions, there are still a lot of problems to solve. For instance, the number of commodities needed in the Hong Kong market but which the mainland has failed to supply as required is still big, totaling more than 700 items last year and the patterns of China-made commodities exported to Hong Kong is still unsuited to the changes in market demand. Generally speaking, Chinese commodities sold in the Hong Kong market are not complete in product variety; stress is given to medium- and low-grade products; and improvements in product quality and specifications are slow.

CSO: 4006/685

9 July 1985

## FOREIGN TRADE AND INVESTMENT

## INTEGRATION OF INDUSTRY, TRADE DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 85 pp 10-12

[Article by Zhou Lianqing [0719 6647 1987] and Bao Nairen [7637 0035 0088]:  
"Some Preliminary Views on the Integration of Industry and Trade"]

[Text] The reforms of the external economic relations and trade system, recently approved by the State Council, once again affirm the integration of industry and trade as one focus of our present reform effort. This article offers some preliminary views on several aspects of the issue.

#### I. Understanding the Integration of Industry and Trade

What is industry and trade integration? At present there is no consensus on its definition and different people interpret it differently. In our opinion, industry and trade integration substantively emphasizes the dialectical unity of production and circulation and embraces the two management systems of industry and trade unification and industry and trade integration.

Industry and trade unification refers to the vertical combination of the production, supply and marketing of a product within an economic entity, resulting in the organizational coordination of industry and trade. One example of industry and trade unification is the granting of legal person status to a qualified production enterprise, company or complex which manufactures similar products and authorizing it to engage in foreign trade and deal directly with foreign merchants.

Industry and trade integration is an objective response to the divorce between the production, supply and marketing of a product which occurs when production and circulation take place in separate economic entities each with its own powers, responsibilities and interests. Under these circumstances, there is a case for close integration between the production link and circulation link in the entire production and reproduction process.

The opposite of industry and trade integration is industry and trade disintegration. And it is exactly the negative effects of such a disintegration on the economy which our present drive to reform the external trade system seeks to eliminate. Its purpose is to sort out the relations between industrial departments and enterprises, on the one hand, and external trade departments and enterprises, on the other, in accordance with China's new

economic circumstances, and fully mobilize the enthusiasm of all parties for foreign trade so that industry and trade will join forces to revive foreign trade, increase economic and social results, and stimulate social and technical progress, thereby contributing even further to the four modernizations.

## II. Why Industry And Trade Must Be Integrated

### A. Integration of industry and trade is an intrinsic requirement of the commodity economy.

As we know, production, distribution, exchange and consumption are four interrelated and interacting links in the production process. As a result of specialization and the social division of labor, production and exchange came to be functionally disconnected, which gave rise to separate, independent economic departments. Yet as society develops, this vertical differentiation is also accompanied by an increasing emphasis on horizontal integration. If we become exclusively concerned with the former or assume that circulation is an independent economic function, not only will we be artificially severing the intrinsic connection between production and circulation, with all the dire effects such a divorce will bring, but we will also be violating the basic tenets of political economy. Karl Marx observed and studied commodity production and commodity circulation as an integrated process in the context of a commodity economy. He said, "Since exchange is only a medium between production and distribution and consumption, both of which are determined by consumption, and since consumption itself affects production, naturally exchange is also an element in the production process." ("Complete Works of Marx and Engels," Vol 2, p 101.) This passage clearly shows that between production and exchange, production is of decisive importance. No production, no circulation. Herein lies the theoretical basis for orienting circulation towards production and making the former serve the latter. But circulation is no passive agent, since it can both promote and restrict production. As Marx pointed out, "Because the rate at which capital discards its commodity mode and adopts its currency mode differs, in other words, because the rate of sale differs, the same capital becomes an element in product formation and value formation at different rates, and the scale of reproduction will also increase or decrease at vastly different rates" ("Capital," Vol II, p 48).

To integrate industry and trade is to comply with the intrinsic demand of the commodity economy so that there will be cooperation as well as division of labor between production and circulation and that even as they remain separate functions, they are combined dialectically in the reproduction process.

### B. The integration of industry and trade is the form commonly assumed by international economic and trade activities.

Today, economic and trade activities in the world are largely determined by price and nonprice factors.

Nonprice factors essentially refer to quality. According to Zhu-lan [phonetic 2612 5695], an American quality control expert, quality is a product's usability, that is, the extent to which it satisfies consumer needs. The determination of the usability of a product today starts with consumer needs surveys and gradually emerges through a series of steps, including design, manufacturing, marketing and redesign in response to consumer feedback so that consumer needs are better served. Throughout this process, even while they exploit their own unique advantages, the production and circulation sectors of the economy must cooperate closely, keep a watchful eye on the mercurial international market, be constantly prepared to modify business strategies and production and technical procedures, and make the satisfaction of consumer needs their shared objective. Only thus can we build up successful industrial and trading enterprises with a solid basis for survival and development. It simply will not do for either industry or trade to go it alone.

Price factors primarily refer to prices, the currencies in which prices are quoted, and the terms of trade. Nations today buy and sell not only commodities but also the specialized technology and managerial skills involved in the production of such commodities. The medium of exchange includes economic and technical cooperation in all its diverse forms as well as currencies. Currency is no longer the general equivalent since values are also calculated in terms of the technology transferred and services provided. An in compensatory trade, raw materials or processed products can be used as a form of payment. To adapt to the special characteristics of international trade, we must demand that our foreign trade personnel be generalists who are familiar with industry and the actual technical aspects of the production process as well as adept in marketing and foreign languages. Otherwise, we will not be able to enter and seize the international market. Worse, if we do not know the value of a piece of technology or the complexity of a processing procedure, we cannot clinch any deals in the course of detailed negotiations, in which case both enterprises and the nation will suffer.

It can thus be seen that given the modern standard of productive forces, which is being constantly improved by scientific advances, the integration of industry and trade is a manifestation of social progress. It is a form of trade widely practiced by other nations, and China should be no exception.

- C. The integration of industry and trade is a natural result of the development of China's external economic and trade activities.

Since the 3d Plenary Session of the 11th Party Central Committee, China's external economic activities and trade have expanded significantly in the wake of the development of our commodity economy. New economic conditions have entrusted two tasks to foreign trade, the exchange of use-value in the international market and the exchange of value. Through foreign trade, we benefit from the difference between the average social labor-time of our products and that of their foreign counterparts. This difference shows itself in the profits of production and foreign trading enterprises. At the same time, it serves as a source of accumulation for the state to ensure

that there are enough funds to finance the importation of technology and plants. Every sector of the national economy, every region and every enterprise has a bearing on the achievement of these tasks. The days are over when foreign trade could run a one-man show. Objectively, there is a need for all sectors in the nation to do their part and especially to exploit to the hilt the advantages of the integration of industry and trade. This is the only way for external economic relations and trade to accomplish the historical mission entrusted to it.

### III. How To Integrate Industry and Trade

At present, the integration of industry and trade is still gaining momentum in China. Working together, the production and circulation sectors must explore ways of achieving it.

We believe:

First and foremost, we must actively support the work of miscellaneous foreign trade enterprises. Such enterprises currently come in various forms and shapes, a major achievement of our reforms in foreign trade. Organizationally, they largely fall into the following seven categories:

1. Specialized foreign trading companies under foreign trade departments; e.g., general import and export companies in edible oils, foodstuffs, local products and livestock products.
2. Assorted industrial trading companies under industrial departments and general industrial companies. (In effect they are also specialized trading companies.) Examples are general import and export companies in machinery, ships, vehicles, metallurgical products and nonferrous metals.
3. Trusts that combine industry with trade; e.g., the China Silk Co and the Shanghai Handkerchief Co.
4. Production enterprises that also engage in exporting on their own; e.g., large enterprises like the Anshan Iron and Steel Co and the Capital Iron and Steel Co and such small and medium-sized ones as Changzhou Agricultural Machinery Co, the Guangzhou Silk Co and the Beijing Silk Flower Co.
5. Joint exporting companies operated by production enterprises making similar products or products which form a complete set. Nationally, there are joint export companies in abrasives and abrasive materials, electric wires and cables and in batteries. A regional example is the Qingdao Textile Co.
6. Partnerships and cooperative enterprises between industry and trade. Examples are the Yenshan and Jinshan Foreign Trade Companies and the joint padauk engraving factory in Changshu County in Jiangsu.
7. Other import and export enterprises; e.g., the International Trust Co and the Guangda Co.

Whatever its form, every foreign trade enterprise faces the problem of how to integrate industry and trade well. To support these foreign trade enterprises, we must support their efforts to integrate industry with trade by vigorously mobilizing the export initiatives of production enterprises and foreign trade enterprises with correct policies and other methods.

Second, foreign trade enterprises must constantly and promptly supply the industrial enterprises with useful international information and help them adopt an international orientation and gain direct access to foreign news.

The benefits of industry and trade integration do not appear overnight. Nor do the dangers of industry and trade disintegration. When a certain product is selling abroad briskly, foreign trade departments snap it up in bulk and industrial departments also produce it in equally large quantities. When world demand declines, foreign trade enterprises stop buying it or reduce their purchases and lower the price they pay for it, to the inevitable detriment of the enterprises and the state. This sets off a chain reaction: fighting for survival, factories are eager to see a quick turnover of goods. Their desperation creates opportunities for the merchants of shoddy products who unload on them their inferior merchandise. Goods obtained through this and other irregular channels disrupt and interfere with the regular marketing channels and networks which our foreign trade departments have built up so painstakingly over the years, and severely undermine marketing agents' confidence in and enthusiasm for handling our products. Therefore, to strengthen international market research and ensure a steady, systematic expansion of our exports, the industrial and trade sectors must work together to gain entry into the world market. Only in this way can they develop common interests and prosper together.

Third, under the unified leadership and management of the Ministry of Foreign Economic Relations and Trade, all foreign trade enterprises must take the initiative to seek the support and leadership of enterprises which produce for the foreign market and go all out to serve production enterprises.

Fourth, we must seriously sum up, publicize and popularize all the positive experiences of foreign trade enterprises in the integration of industry and trade to further promote such integration.

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CSO: 4006/522

FOREIGN TRADE AND INVESTMENT

BRIEFS

ECONOMIC SYMPOSIUM WITH JAPAN--Shanghai, 23 May (XINHUA)--The 21st century PRC-Japan economic symposium which opened in Beijing on 20 May was continued in Shanghai and ended here today. The Chinese and Japanese governments have attached great importance to this symposium. When the symposium was held in Shanghai, Vice Mayor Ruan Chongwu participated on behalf of Mayor Wang Daohan, who is out of the country on an official visit, and Vice Mayor Li Zhaoji met with Yoshizane Iwasa, head of the Japanese delegation and vice president of the Japan-China Economic Association, and other principal members of the delegation. At today's conference, responsible persons of the Shanghai Municipal Foreign Trade Commission and the Shanghai Economic Development Strategic Research Society addressed the gathering on the topics "Shanghai will never close the big door that it has opened to the outside world" and "The strategy and short-term plans for Shanghai's economic development," respectively. They all believed that through their various contacts, explorations, and practice, China and Japan will further increase their mutual understanding and trust and will continue to make progress in economic and technical cooperation. [Text] [Beijing XINHUA Domestic Service in Chinese 1525 GMT 23 May 85 OW]

FUJIAN-FRENCH COOPERATION--The Fujian Provincial Geological and Minerals Bureau and the French Geological and Minerals Survey Bureau recently signed an agreement on joint exploration of Fujian's geothermal resources. One-tenth of China's geothermal points are located in Fujian. There are not springs in over half the counties and cities in Fujian. [Summary] [Fuzhou Fujian Provincial Service in Mandarin 1130 GMT 22 Apr 85 OW]

SHANDONG-JAPAN TECHNICAL COOPERATION--Shandong Province signed a letter of intention on economic and technological cooperation with Japan's Nissing Stock Corporation at Nanjiao Guesthouse on the afternoon of 4 June. Ma Shizhong, deputy governor of the Shandong government; and (Leichunzhengsi), president of the corporation, respectively, signed the letter of intention. At the invitation of the provincial government the 9-member party led by president (leizhunzhengsi) arrived in Jinana on the morning of 4 June to make inspection tours in our province. Liang Buting, secretary of the provincial CPC committee; and Li Changan, governor of the province, met with them. The provincial government warmly feted Japanese guests on the evening of 4 June. In his speech, Vice Governor Ma Zhizhong said: Over the past few years, our province has made fine breakthroughs in using foreign funds and importing advanced technology thanks to abiding by the principle of opening to the outside world and enlivening the domestic economy. From now on, we

should unswervingly implement the principle of opening to the outside world to carry out into full play our province's advantages and be based on the principle of equality and mutual benefit in widely conducting external economic and technological cooperation in order to promote our province's economic development. [Excerpts] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 4 Jun 85 SK]

MEETING WITH JAPANESE TRADE MINISTER--Tokyo, 4 Jun (XINHUA)--Japanese International Trade and Industry Minister Keiji Murata met with Chinese State Councillor Kang Shien and his party at the Ministry of International Trade and Industry this afternoon. During the meeting, the two sides exchanged views on questions concerning all-round economic and technical cooperation in oil trade, petrochemical industry, processing of petroleum chemicals, and manufacturing of petroleum equipment. Toshio Doko, president of the Japan-China Economic Association, and Yoshihiro Inayama, president of the Japan Federation of Economic Organizations, also successively met with Kang Shien today. They discussed questions on all-round economic and technical cooperation between the two countries, particularly in the petrochemical industry. Kang Shien and his party arrived in Japan yesterday afternoon at the invitation of International Trade and Industry Minister Keiji Murata. [Text] [Beijing XINHUA Domestic Service in Chinese 1654 GMT 4 Jun 85 OW]

HEILONGJIANG EXPORTS SOYBEAN TO USSR--In the middle of May, our province prefulfilled its annual plan for exporting soybeans to the Soviet Union by 4.5 months. The 1985 gross volume of soybeans exported to the Soviet Union is equal to the total volume of the last 2 years. The fixed period of goods delivery is from January to September this year. To prefulfill the delivery task, the provincial leadership headed by the Provincial People's Government in close cooperation with the departments concerned organized the leading group in charge of exporting soybeans to the Soviet Union with the participation of principal responsible persons from the port office, the provincial Economic and Trade Department, the provincial Railway Bureau, the provincial Grain Bureau, the provincial Commercial Inspection Bureau, and from the provincial Plants Inspection Station. In only 131 days, the leading group successfully completed the task of exporting soybeans to the Soviet Union. [Text] [Harbin HEILONGJIANG RIBAO in Chinese 21 May 85 p 1 SK]

NORWEGIAN BANK ESTABLISHING OFFICE--Bergen Bank has plans to establish a representation office in Beijing. This will be done within the cooperative arrangement framework of Scandinavian Banking Partners, and thereby will serve Swedish, Finnish and Norwegian interests. Bergen Bank is also discussing its plans with Norwegian industrial concerns, stated Finn Strom-Gundersen, director of Bergen Bank, at an international banking seminar on Tuesday [11 June]. The two other large banks have already established themselves in China. Bergen Bank has disclosed that the timeframe for establishing of the office is not definite, but the bank hopes to be in place by the end of this year. [Text] [Oslo AFTENPOSTEN in Norwegian 12 Jun 85 p 34]

UPGRADING NATIONAL ACCOUNTING SYSTEM--In upgrading its accounting system, China wishes to draw on the experience of the FRG General Accounting Office. On returning from a visit in Beijing, the president of that organization, Karl Wittrock, voiced how impressed he was that the PRC had established a comprehensive accounting system after only 2 years of development. There are said to be 3000 accounting agencies with more than 24,000 auditors at all levels of administration. In addition, there is the internal auditing system in businesses and administrations, which has more than 6000 auditors. According to Wittrock, German-Chinese cooperation will also include the General Accounting Office, in collaboration with the German Foundation for Developing Countries (DSE), supplying its experience to the Chinese. [Text] [Munich SUEDEDEUTSCHE ZEIGUNG in German 29 Apr 85 p 6] 12399

CSO: 4620/34

LABOR AND WAGES

TEXT OF GUANGDONG'S TRADE UNION REGULATIONS

HK070747 Guangzhou NANFANG RIBAO in Chinese 25 May 85 p 2

["Regulations for Trade Unions in Enterprises of Guangdong Province's Special Economic Zones (Adopted by the 13th Meeting of the Standing Committee of the 6th Guangdong Provincial People's Congress on 8 May 1985)"]

[Text] Article 1: These regulations have been formulated in accordance with the "Trade Union Laws of the People's Republic of China" (hereinafter called "Trade Union Laws of China"), the "Regulations Regarding Guangdong Province's Special Economic Zones," and other relevant laws and regulations, in order to clarify the position and obligations of the trade union organizations in the enterprises in Guangdong Province's Special Economic Zones (SEZ) and to give play to their role in SEZ construction.

Article 2. The trade unions in the SEZ enterprises mentioned in these regulations refer to trade union organizations legally established in the enterprises run by foreign investors, Overseas Chinese, Hong Kong and Macao compatriots, and Taiwan compatriots (hereinafter called overseas investors), or their companies and enterprises in the SEZ and those of joint ventures and cooperative management (hereinafter called SEZ enterprises).

Article 3: The trade Unions in SEZ enterprises are considered legal entities and their chairmen are representatives of the legal entity.

Article 4: The Chinese staff and workers in SEZ enterprises are component parts of the Chinese working class. They can establish and join the trade union organizations in their enterprises and take part in the organizations' activities in accordance with the "Trade Union Laws of China" and the "Constitution of Chinese Trade Unions."

Article 5: The trade unions in SEZ enterprises are subject to the direct leadership of the trade unions at the next higher level.

The trade unions in the enterprises of the Shenzhen, Zhuhai, and Shantou Special Economic Zones are under the unified leadership of the trade union federations of these cities. The establishment of trade unions in SEZ enterprises should be approved by the trade union federations in their cities.

Article 6: The trade unions in SEZ enterprises are representatives of the staff and workers. They safeguard the legitimate rights and interests of the staff and workers according to law; represent the staff and workers in consulting and discussing with the enterprises problems concerning their immediate interests; supervise the enterprises in implementing the laws, rules, and regulations of the state and the special economic zones on labor protection, labor insurance, wage system, environmental sanitation, and production safety; and safeguard the special rights and interests of female staff and workers according to the law.

Article 7: The trade unions in SEZ enterprises guide and help the staff and workers in signing individual labor contracts with the enterprises or represent them in signing collective labor contracts with the enterprises. They also supervise the implementation of these contracts.

Article 8: The trade unions in SEZ enterprises should support the production and management of the enterprises and educate the staff and workers in adopting a correct attitude toward the legitimate rights and interests of overseas investors, in observing labor discipline and various regulations and systems, in strictly carrying out labor contracts, and in working hard to fulfill all economic tasks.

Article 9: The trade unions in SEZ enterprises should organize the staff and workers to study politics, science and technology, and cultural knowledge, and should assist the enterprises in carrying out professional and technical training and a variety of wholesome cultural and sports activities.

Article 10: The trade unions in SEZ enterprises should be concerned with the well-being of the staff and workers and assist and supervise the enterprises in rationally using welfare funds and bonuses and developing collective welfare services.

Article 11: The trade unions in SEZ enterprises should carry out a variety of activities to strengthen their unity, friendship, and cooperation with the staff and workers from Hong Kong, Macao, and Taiwan, as well as Overseas Chinese and foreign staff and workers.

Article 12: When the boards of directors of the SEZ enterprises are holding meetings to discuss development plans, production management, and other important matters of the enterprises, trade union representatives can attend the meetings as nonvoting delegates according to law so as to convey the opinions and demands of the staff and workers.

When the boards of directors of SEZ enterprises are studying and making decisions on problems concerning awards and punishments for the staff and workers, the wage system, the well-being of the masses, and labor protection and insurance, they should have the cooperation of the trade unions. Trade union representatives can attend these meetings as nonvoting delegates according to law so as to convey the opinions of the trade unions.

Article 13: In the enterprises run with exclusive investment by overseas investors, the system of consultative conferences in regard to labor and capital should be established. The trade union representatives should hold consultations with the overseas investors or their agents at regular intervals on problems concerning the rights and interests of the staff and workers so as to harmonize the relations between labor and capital and run the enterprises well.

Article 14: When the SEZ enterprises dismiss or take disciplinary actions against staff and workers, they should follow the regulations regarding labor management and labor contracts for the special economic zones and inform the trade unions in due time.

Article 15: If the enterprises need the staff and workers to work more hours, they should take care that the health of the staff and workers is not affected and should strictly abide by the regulations of the special economic zones regarding labor and wage management. They should also allocate overtime payment. If the health of the staff and workers is affected, the trade unions must make it known to the enterprises and consult with the latter to find solutions.

Article 16: In accordance with the regulations of the "Constitution of Chinese Trade Unions," trade unions in SEZ enterprises should establish grassroots committees and hold meetings or congresses for their members.

Generally speaking, members of trade union grassroots committees must not be released from production. But, according to the "Trade Union Laws of China," if there are many workers in an enterprise, there can be some trade union committee members who are released from production. The wages of these members are paid by the trade unions using trade union funds. All other treatment is the same as the staff and workers of their enterprises.

Article 17: If the committee members of the trade unions in SEZ enterprises who are not released from production need to use work hours to take part in trade union activities, the trade unions should inform the enterprises beforehand, and the latter should support their work. But the total work hours thus taken should be less than two workdays per month. They can also use these work hours to take part in the training and meetings sponsored by the trade unions, and their wages and bonuses must be paid normally.

Article 18: If SEZ enterprises want to transfer members of trade union committees to other posts or dismiss them, they must ask for instructions from the trade unions at the next higher level beforehand.

When the members of trade union committees who are released from production leave their posts at the trade unions, the enterprises should place them in other suitable posts in good time in light of their actual conditions.

Article 19: Generally speaking, the trade unions in SEZ enterprises should not use production (work) hours for their members' activities. If, under certain special conditions, the production (work) hours must be used, they should ask for the approval of the enterprises beforehand.

Article 20: The SEZ enterprises should make things easy for the trade unions and support their work.

In accordance with the "Trade Union Laws of China" and the "Regulations Regarding the Implementation of the PRC Laws on Joint Ventures Using Chinese and Foreign Investment," the SEZ enterprises should provide their trade unions with necessary and free houses and equipment (including water, electricity, and furniture) to be used as offices, meeting rooms, and for the purpose of developing collective welfare, cultural, and sports undertakings. They should also be responsible for the maintenance and repair of such equipment.

Article 21: In accordance with the "Trade Union Laws of China" and the "Regulations Regarding the Implementation of the PRC Laws on Joint Ventures Using Chinese and Foreign Investment," the SEZ enterprises should allocate funds for the trade unions amounting to 2 percent of the total monthly income of all the staff and workers. These funds are to be allocated from the enterprises' management fees and must be transferred to the trade unions' accounts every month.

Members of the trade unions in SEZ enterprises should pay membership fees each month according to the regulations of the All-China Federation of Trade Unions.

The trade unions in SEZ enterprises must establish their fund management system in accordance with the financial discipline of the state and the SEZ and the methods provided by the regulations of the All-China Federation of Trade Unions, and must accept the guidance and supervision of the trade unions at higher levels.

Article 22: The disputes between the trade unions in SEZ enterprises and the enterprises can be solved by consultations with representatives of both sides. If they still cannot be solved, one or both sides can ask for mediation from the labor departments of the relevant city governments. If the mediation is not satisfactory, they can take legal proceedings in the people's court according to law.

Article 23: All Hong Kong, Macao, Taiwan, and foreign staff and workers and Overseas Chinese employees whose main source of income is the wages they receive in the SEZ enterprises, who are in favor of the "Constitution of Chinese Trade Unions," and who voluntarily apply for union membership, pay the membership fees as stipulated, and take part in union activities, can become members of the Chinese trade unions.

Article 24: When Hong Kong, Macao, Taiwan, Overseas Chinese, and foreign members conclude their work in SEZ enterprises, they must give back their membership cards before leaving the SEZ. If they want to have certificates, they can obtain them from the relevant city federation of trade unions. If the members leave the SEZ for 6 months in succession without reason and do not pay the membership fees, their membership will automatically be terminated.

Article 25: These regulations are effective upon promulgation.

CSO: 4006/703

LABOR AND WAGES

JILIN RALLY MARKS TRADE UNION ANNIVERSARY

SK200230 Changchun Jilin Provincial Service in Mandarin 1030 GMT 29 Apr 85

[Excerpts] On the afternoon of 29 April, the provincial and the Changchun City trade union councils held a rally at the Changchun City Workers' Cultural Palace to celebrate the 1 May International Laborers' Day and the 60th anniversary of the founding of the All-China Federation of Trade Unions. Zhou Wencan, chairman of the provincial trade union council, presided over the rally.

Attending the rally were leading comrades of the provincial and the Changchun City Party, government and military organizations, including Gao Dai, Zhao Xiu, Liu Jingzhi, Wang Xianjin, Wang Zhonyu, Li Yaquan, Dong Xin, Liu Cikai, Gao Dezhan, Zhang Fengqi, (Yu Zhonghuan), (Wu Yuxia), and (Wang Li). Also attending were responsible persons of the pertinent provincial and Changchun City departments and mass organizations, and veteran comrades who have engaged in the trade union work for many years.

Liu Jingzhi, secretary of the provincial CPC committee, spoke at the rally. After reviewing the glorious fighting history of the provincial working class, Comrade Liu Jingzhi pointed out: Building China into a modern, culturally advanced and highly democratic socialist country is a glorious mission and the fundamental task for the workers' movement in the new stage. The vast working class and the broad masses of trade union workers should fully understand their heavy task; carry on and carry forward the revolutionary tradition of the working class; learn from the shining examples of the older generation of revolutionaries and of model heroes; and give full play to the initiative, enthusiasm and creativeness of the working class. At present, the provincial working class should stand in the forefront of reform to promote reform of the urban economic structure, and strengthen their sense of organization and discipline in order to set an example in consciously observing discipline. The vast number of workers and staff members should diligently study general and scientific knowledge, and strive to improve their skills needed for developing the four modernizations and to become new-style socialist workers.

CSO: 4006/703

## TRANSPORTATION

### DEVELOPMENT OF PRC AVIATION INDUSTRY DISCUSSED

Beijing ZIRAN BIANZHENGFA [JOURNAL OF DIALECTICS OF NATURE] in Chinese  
No 2, 10 Apr 85 pp 30-34

[Article by Wang Dequan [3769 1795 0356] of the 611 Research Institute:  
"Several Issues Concerning Development of China's Aviation Industry"]

[Excerpt] China had an early start in the aviation industry compared with the developed countries in the world. But why is it much behind now? Studying and summing up the causes and lessons of this result is beneficial to accelerating the development of China's aviation industry.

#### II. The Founding and Development of China's Modern Aviation Industry

The birth of new China opened up a brand new page in China's aviation industry. The party and the government attached great importance to developing China's aviation industry. First, they adopted a series of effective measures to train competent people. As early as 1938, Chairman Mao and the CPC Central Committee decided to transfer a group of people from the Red Army to Xinjiang to study aviation. In 1946, the first aviation school of new China was established in northeast China with some old aviation equipment captured from Japanese invaders.

In 1951, the construction of the Advanced Nanjing training School started on the ruins of the Imperial Palace of the Ming Dynasty in Nanjing. In 1952, the Beijing Aviation College was jointly established by eight units--Qinghua University, Beijing Industrial Institute, Beiyang Engineering Institute, Xibei Industrial Institute, Xiamen University, Sichuan University, the aviation department of Yunnan University and the aviation department of the Xinan Engineering Training School--and Xibei Industrial University was jointly established by Shanghai Jiaotong University, Nanjing University, the aviation department of Zhejiang University, the Huadong Aviation School and Xiebei Engineering Institute. Between 1951 and 1952, 35 secondary technical schools of the aviation industry, 2 mechanical schools and 10 training classes for mechanics were established. In 1952, the number of mechanical schools was increased to 9 with over 9,400 students.

Meanwhile, large numbers of students were sent to study in the Soviet Union. Emphasizing education and training of many aviation technicians substantially accelerated the rapid development of the aviation industry.

Because China's industrial foundation was very poor, it could not quickly develop a self-reliant aviation industry. Facts have proved that the party policy of giving full play to the wisdom and intelligence of Chinese engineers and technicians and the broad masses of workers while vigorously introducing and studying advanced foreign technology is completely correct. In 1951, the Chinese Government signed a contract with the Soviet Government in Moscow about China's aviation bureau inviting 20 Russian advisers and 100 technical experts. By the end of 1951, a total of 360 Russian experts and technical personnel, including 2 chief advisers of the bureau, 20 design experts, 100 technical experts and 227 technicians for mobile airplane repair teams and motor plants, had been invited. The Soviet Government also supplied China with a large amount of machinery, equipment and data which played a very important role in satisfying the need for airplane repairs in the war to resist U.S. aggression and help Korea and in accelerating the development of China's aviation industry.

In 1954, China succeeded in trial-producing the Model-5 elementary trainer and its engine. In 1955, China began to trial-produce jet engines. On 19 July 1956, China succeeded in the test flight of the first jet fighter manufactured in China. On 8 September that same year, the state tested and approved the mass production of jet fighters, enabling China to become one of the few countries in the world that had mastered the techniques for manufacturing jet planes at that time. This is of great significance in the history of Chinese aviation. It marked the beginning of China's jet era.

In 1957 China succeeded in trial-producing a light transport plane--the Yun 5--and putting it into mass production.

Between 1957 and 1958, China, on its own, designed and built 10 airplanes. They were "Beijing 1" light short-distance transport planes, "Shoudu 1" and "Shouda A" light transport planes, the "Feilonghao" hydroplane, the "Songhuajiang 1" small passenger transport plane, the "Shenyang 1" farming airplane, the "Nanhang 1" target drone, the "Yanan 1" multipurpose plane, the "Jiefang 1" advanced training glider and the "Shangshi 1" elementary training glider. These airplanes enabled China to gain experience in designing airplanes on its own and train a group of competent scientific research personnel for the aviation industry.

China's aviation industry has scored outstanding achievements one after another in the field of civil aviation. On 15 December 1970, a successful test flight of the "Yun 7" airplane was conducted. On 25 December 1974, a successful test flight of the "Yun 8" airplane was made. In March 1977, the "Yun 11" multipurpose airplanes were put into small-batch production. On 26 September 1980, a successful test flight of

the "Yun 10" large Chinese-built jet passenger plane was made. On 7 February 1982, a successful test flight of the "Yun 12" light transport plane was conducted and the plane was put into small-batch production.

After over 30 years of development, China's aviation industry has formed complete scientific research and production systems, designed and produced different models of planes and basically satisfied the need of national defense. But China mainly depends on imports for large civilian-use passenger planes. Compared to developed countries, China is far behind in both military and civilian aircraft. What caused such gaps?

### III. Causes of the Temporary Backwardness of China's Aviation Industry

At the beginning of the 20th century, Feng Ru [7458 1172] successfully built the first airplane in China which could compare with U.S. and Soviet-made airplanes. But the United States soon established aviation research institutes. In December 1918 after the victory of the October Revolution, the Soviet Union established the Central Aerial Hydromechanics Research Institute on the basis of the aerodynamics laboratory of Moscow University to study aerodynamics, hydromechanics, intensity, materials, flying theory and experimental technology. Then China was under the feudal control of the Qing Dynasty which was decaying in its last few years. There was no aviation research institute. Due to lack of study of flying theory and experimental technology, backwardness was unavoidable. In addition, the industrial revolution succeeded in many Western countries, but it never happened in China. Without the support of an appropriate industrial foundation, it was very difficult for China to develop and expand its aviation technology; this is another important cause of backwardness.

In the 1920's, the Soviet Union was in an extremely difficult period, but it attached great importance to proceeding from its own economic and technical conditions, adopted aviation policies that suited the needs of scientific and technological development, centralized limited manpower and funds and established comprehensive research centers to study major problems that needed immediate solutions. Especially, the Soviet Union trusted and paid attention to aviation scientists and experts who were allowed to exercise leadership over the research, design and manufacture of airplanes. The Soviet Union also paid attention to training enterprise management cadres, enabling its aviation industry to develop by leaps and bounds. During the early years following the founding of the PRC, China adopted similar principles in light of its national conditions and enabled the aviation industry to develop and expand rapidly. However, because laymen exercised leadership over experts for a long time and the training of managerial personnel for scientific research and production was ignored, China suffered a low management level, poor production efficiency and serious waste. Moreover, because intellectuals were ignored for a long time, the

the development level and speed of China's aviation research were adversely affected. The Soviet Union appointed some college professors to hold concurrent posts as part-time leaders of certain research or design units or as responsible persons of specialized institutes. Some experts of research and design units often gave lectures in universities. This practice not only invigorated the academic atmosphere and accelerated the improvement of teaching and research levels but also speeded up the process of achieving research results and training competent people. Compared with the Soviet Union, there were very few contacts between aviation schools and research and design units in China, not to mention college professors working part-time at research units. Therefore, it was very difficult for aviation schools and research and design units to promote and improve each other.

Because the development cycle of airplanes and engines is long and their designs need to be constantly revised and perfected as problems crop up in the process of research, research units should have their own trial-production plants or special production lines. U.S. aviation companies chose the latter for the trial production of new airplanes. The Soviet Union, France and England used the former. The general principle is to facilitate the development of new airplanes. In China, the general practice is to use the production lines of plants, causing much disturbance between research units and plants which dispute with each other over many issues and thereby often affect the speed of development and finalized production. Which of the two plans China should adopt to bring maximum benefits to the development of the aviation industry is a question deserving profound study.

Paying attention to the development of aviation experimental technology and using first-class equipment and instruments to equip and continuously perfect aviation laboratories are common practices in the countries of advanced aviation technology. The United States, the Soviet Union, France, England and the FRG all paid great attention to producing their own nongeneral equipment and instruments needed for aviation. Their research departments all have a very strong ability to carry out research, designing and production of aviation equipment and instruments. Compared to them, China is very weak in this field. Much experimental equipment and many instruments are imported, seriously affecting the development of the experimental technology of China's aviation.

Everybody knows that the Soviet Union was once behind the United States, England and Germany in aviation. The Soviet Union vigorously imported advanced foreign technology and insisted that technology transfer begin with research. The Soviet Union first analyzed and assimilated advanced technology and then converted it in light of actual conditions to aviation products with Soviet characteristics. As a result, the Soviet Union not only soon caught up with but also surpassed the aforementioned developed Western countries in many fields. It was not until the 1970's that Brazil began to develop its aviation industry, but by the late 1970's, it had already entered the

Western market for light airplanes and scored achievements that became the focus of the world's attention. This is inseparable from that fact that Brazil is good at introducing and studying advanced foreign technology. Importing advanced foreign technology just for the purpose of production can achieve marked results in production within a short period of time, but such technology will soon become backward and lose its ability to compete. Besides, all advanced countries of the world have relied on their own forces to develop aviation. Therefore, it is extremely important to bring into full play the enthusiasm and creativity of native scientific and technological personnel. Copying always puts us behind and under the control of others. For instance, in 1960, the Soviet Union kept delaying delivery to China of data concerning the special equipment and accessories of pertinent airplanes, causing great difficulty in copying. On 12 July of the same year, the Soviet Union suddenly stopped supplying China steel tubes for airplane use, causing China's airplane copying to stop. Facts have proved that technology transfer must begin with research, not production. This is the only way to raise our research and designing level and increase our capacity rapidly. Otherwise, we will be thrown into a passive situation.

The United States and the Soviet Union have the most developed aviation industries in the world. These states have always attached great importance to their aviation industry, paid attention to combining long-term and short-term research plans and had sufficient technological reserves; therefore, the speed of their new airplane development is faster than other countries. Besides, they have attached great importance to maintaining the stability and continuity of aviation industry development policy. In comparison, China has gone through many major twists and turns. For instance, between 1957 and 1958, China went all out to carry out mass movements. During that period, China designed and successfully conducted test flights of all airplanes but except for the "Yun 5" and elementary training gliders, none was put into operation, resulting in huge waste. In blind pursuit of high targets, China started a 3-year research project on two other models of jet planes. Later, China had to give it up because it was much too advanced compared to China's actual level. Mass movements replacing scientific management worsened the quality problem of aviation products. Moreover, the Soviet Union tore up contracts and withdrew experts from China during China's difficult period, causing substantial losses to China's aviation industry. The Cultural Revolution cost China's aviation industry much precious time, enlarging again the already narrowed gap between China and the advanced countries.

Aviation is a technically complicated and very comprehensive collective that includes a wide range of subjects. Raw materials (including heat-resistant alloys, high-tensile aluminum, titanium alloys and compound materials) and processing techniques and technology are the foundation of the aviation industry. Compared with the Soviet Union and the United States, China is very far behind in this field. The weak

foundation has caused many difficulties in developmgt of new airplanes and engines. No matter how advanced a design is, it cannot be realized because of a lack of new materials and advanced technology. In foreign countries, avionics is rapidly developing toward a comprehensive direction and computers are being widely used in the real-time control of aviation and the processing of various data. China's avionics has the weaknesses of bulkiness, low reliability and short service period. The key problem is electronic devices, especially various power tubes, solid-state circuits and large-scale and super-large-scale integrated circuits. If this problem is not solved, it will be very difficult for China to catch up with and surpass the advanced world level in avionics. In order to speed up our advance in aviation, the state should attach great strategic importance to research on aviation materials, processing techniques and technology and electronic devices and strengthen the research on airplane electronic systems.

In sum, as long as we conscientiously draw experiences and lessons from the success and failure of the past, we will certainly be able to realize the goal of revitalizing China's aviation industry and becoming one of the advanced countries in the world within a relatively short time.

12302

CSO: 4006/631

TRANSPORTATION

CIVIL AVIATION ADMINISTRATION IMPROVING SERVICE

OW061151 Beijing XINHUA in English 0954 GMT 6 Jun 85

[Text] Beijing, 6 Jun (XINHUA)--The Civil Aviation Administration of China (CAAC) has launched a five-month good-service drive starting from this month.

The emulation campaign involves 6,500 stewardesses, ticket sellers, porters, attendants, warehouse keepers and sanitation workers at airports, ticket offices, hotels, and restaurants at CAAC's facilities in Beijing, Shanghai, Guangzhou, Chengdu, Xian and Shenyang.

Different requirements are set for different services and scores will be drawn for each item listed.

Opinions expressed by passengers constitute an important basis on which the CAAC workers' performances are judged.

A CAAC spokesman said here today that they welcome criticism from passengers, both Chinese and foreign. "Passengers are invited to supervise CAAC's work," he said.

The standards set for ticket office include giving polite answers to questions asked by customers. Anyone who does not reply when asked a second time or who refuses to pick up the phone after three rings would be considered not replying and would be cut by ten points. As far as booking is concerned, they should look for vacancy and take the booking whenever possible.

Stewardesses should respond to passengers with a smile, give appropriate services to the elderly, children, the sick and handicapped. They should always be patient and polite.

The cargo workers should be very careful in handling luggage and be cautious in not getting the luggage to wrong destinations. Any error would mean a loss of 20 points.

Some 50 suggestion boxes have been installed in airports, ticket officers and other air-transport-related establishment.

Hu Yizhou, CAAC's new director-general, promised more airliners and better service when he took the post earlier this year.

He said, "I have received letters from both Chinese and foreign passengers with suggestions for improving CAAC's services. I will do my best to be worthy of the people's trust."

"CAAC's major tasks at present," he said, "are updating the air fleet, ensuring flying safety and improving the quality of service."

CSO: 4020/246

## TRANSPORTATION

### YUNNAN MAKES PROGRESS IN HIGHWAY CONSTRUCTION

HK200421 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 18 May 85

[Excerpts] The province has made gratifying achievements in this year's highway construction. It has built and improved more than 4,700 km of county highway and more than 6,000 km of rural roads. The scale is the largest ever in the province in terms of construction, speed, funds raised, and the number of workers.

Located on the southwestern border of China, mountainous areas account for 94 percent of the province's total area. By June last year, the province had built and improved more than 67,400 km of main highways and rural roads, thereby initially putting an end to the situation of inaccessibility. However, the majority of these highways were of poor quality and low standards. Moreover, some 7 percent of the prefectures and some 60 percent of villages in the province were still inaccessible. Thus, the problem of transport greatly affected the development of the economy.

In June last year, the provincial people's government held a provincial work conference on highways, at which it put forward the guiding ideology of improving transportation before developing Yunnan. Also, the conference determined the principles and methods of building highways, and formulated a 3-year plan for the task. Principal leaders of governments at various levels handled the task personally. They carried out in-depth investigations and educated cadres and the masses through practical work that only when we build roads can we attain prosperity. Thus, they settled the issue of for whom and who build the roads. [passage omitted]

By November last year, in addition to the subsidies of 40.89 million yuan from the Provincial CPC Committee, the province's financial departments at prefectural, autonomous prefectural, city and county levels had raised a total of more than 21 million yuan. The departments concerned also raised 3.7 million yuan, and the masses contributed funds they had raised.

In order to ensure the quality and technical standards of the roads built, the province's departments in charge of highway administration and the Provincial Highway Design Institute supported the construction by sending more than 370 technician-cadres and workers to work on surveying, designing, construction, and bridge gauging. Various prefectures and counties also sent a number of

trained, educated youths to join the administrative groups for surveying, designing, and construction. Some localities formed technical forces by means of recruitment, entrusting them with the work, and transferring the forces of society. [passage omitted] By the end of April, the province's average number of workers working on the construction each day was more than 500,000 and the highest figure was 870,000. About 51 percent of the county highways passed the quality examination.

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TRANSPORTATION

QINGHAI-XIZANG PLATEAU HIGHWAY ASPHALTED

OW031434 Beijing XINHUA in English 1426 GMT 3 Jun 85

[Text] Xining, 3 Jun (XINHUA)--An 11-year project to renovate the world's highest highway on the Qinghai-Tibetan plateau, formerly a sand and stone affair, is near completion, the Qinghai Provincial Transport Bureau announced today.

Over 94 percent of the 1,943-kilometer highway from the Qinghai provincial capital of Xining to Lhasa, capital of Tibet has been asphalted. The number of bridges and tunnels built or rebuilt total 2,280, a bureau spokesman said.

The entire project, began in 1974 and will be completed this month.

Built by the army in the 1950s, the highway transpasses rivers, deserts and grasslands at an average altitude of 3,500 meters above sea level. A section of 560 kilometers snakes through a permafrost zone.

The highway used to handle 100,000 tons of cargo a year.

In the past two years, however, the annual transport volume has increased to more than 500,000 tons.

The spokesman attributed this in part to the construction of 43 projects in Tibet, for the 20th founding anniversary of the Tibet Autonomous Region this year.

CSO: 4020/246

9 July 1985

## TRANSPORTATION

## BRIEFS

JIANGSU'S LIANYUNGANG PORT--Nanjing, 2 Apr (XINHUA)--The second phase expansion project of the Miaoling New Part area of Lianyungang, Jiangsu Province, started 31 March. The expansion project includes a 6,600-meter breakwater and 5 berths. The second phase project will be completed by 1991. By that time, Lianyungang's annual handling capacity will be increased from today's 9 million tons to 20 million tons. [Summary] [Beijing XINHUA Domestic Service in Chinese 1315 GMT 2 Apr 85 OW]

TIANJIN CONTAINER WHARF--Construction of a container wharf at Tianjin Harbor was in full swing. It is estimated that this project will be completed and made available for use at the end of this year. This wharf will have three berths, its coastal line will be 895 meters long, and its annual handling capacity is designed at 3 million tons of goods. [Summary] [Tianjin TIANJIN RIBAO in Chinese 17 Apr 85 p 1 SK]

INSCRIPTIONS FOR SHIPYARD--Chen Yun, member of the Standing Committee of the Political Bureau of the CPC Central Committee, and Xu Xiangqian, member of the Political Bureau of the CPC Central Committee recently wrote inscriptions for the Jiangnan shipyard in Shanghai to mark its 120th founding anniversary. The inscription written by Comrade Chen Yun reads: Carry forward the glorious traditions, raise our shipbuilding standards. Comrade Xu Xiangqian's inscription reads: Enhance the Shanghai working class' revolutionary traditions, develop our country's powerful shipbuilding industry. [Text] [Shanghai City Service in Mandarin 0100 GMT 25 May 85 OW]

CSO: 4006/652

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